THE AWAKENING

The Economic Crisis and the Way Out

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MACDONALD

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In a previous book on the " Washington Loan Agreements ", Mr. Amery criticised the commercial and monetary policy which the United States Administration has attempted to enforce on the world, and foretold, all too accurately, the disastrous consequences which would follow from our acceptance of the conditions attached to the Loan. In this new work, he deals with those consequences as exemplified by the present critical situation of our affairs and goes on to point out the way to recovery. Much of the purely analytical and historical material of certain chapters of the earlier book, dealing with the economic history of the inter-war years, with Bretton Woods and the original American commercial Proposals, has been reincorporated and brought up to date. But the new book is set in a wider frame and discusses our present crisis in the light, not only of recent events, but of the whole historic background of British

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economic policy. So, too, in his suggestions for a way out he deals, not only with the immediate short-term measures required to keep our heads above water, but even more with the complete and permanent departure from the policy of the last hundred years which is essential if Britain and the British Commonwealth and Empire are to regain their place in the world. Based on a broad historical survey and an acute economic analysis "The Awakening" is, above all, a stirring call to action.

THE AWAKENING

Our Present Crisis and the Way Out

By

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"The prophets prophesy falsely and the priests bear rule by their means; and my people love to have it so: and what will ye do in the end thereof?"

Jeremiah v. 31.

". . . I see her not dispirited, not weak, but well remembering that she has seen dark days before; indeed, with a kind of instinct that she sees a little better in a cloudy day, and that in storm of battle and calamity she has a secret vigour and a pulse like a cannon. I see her in her old age, not decrepit but young, and still daring to believe in her power of endurance and expansion. Seeing this, I say, All hail! mother of nations, mother of heroes, with strength still equal to the time; still wise to entertain and swift to execute the policy which the mind and heart of mankind requires in the present hour."

Emerson on England, 1847.

INTRODUCTION

Twice already in one generation has this country, the heart of the British Commonwealth and Empire, strained its resources to the uttermost in a life-and-death struggle. Twice victorious, it finds itself, on the eve of a new and even more troubled era in world affairs, confronted by the prospect of imminent, complete and perhaps even irretrievable collapse of the economic foundations upon which its past greatness has been based and on which its hopes of the future depend. It is a bitter awakening from the confident hopes of social betterment at home and of strengthened influence for peace and freedom in the world which sustained us through the grim years of war. But if it is also an awakening to the causes of our present plight, it can be the starting point of lasting recovery and more soundly based prosperity. If it is an awakening to a fresh spirit in our domestic affairs and to a fresh determination to reassert our place among the nations, it may well be the beginning of a new and even more glorious chapter in British history. It is in the hope of contributing to such an awakening that the present work has been written.

The first essential is to get the immediate crisis into its true perspective in the evolution of our national economy. What we have to deal with is not a mere check, however severe, given by the war to a normal progress. It is the aggravation by the war of a long decline whose seeds were sown a century ago. As the result of previous centuries of deliberate national and Imperial economic policy, we were at that moment as pre-eminent in the world as the United States are to-day. The industrial revolution had originated here. We were the first to equip factories for large-scale manufacture by machinery, the first railway builders, the first civil engineers. The British Navy held the Seven Seas open for peaceful commerce, and a half-explored and wholly undeveloped world cried out for the goods and the capital equipment that

we alone could provide. If we had lost one Empire in America, we still retained most of its trade, and were fast building up another Empire by a moderate but effective system of mutual preference.

That we yielded to the then fashionable intellectual craze which declared that all national policy was only a hindrance to the free play of individual economic energies could make no appreciable difference to the immense start we enjoyed or to the dynamic momentum of our economic life. That momentum, indeed, received in the next few years a tremendous fresh impetus as the result of the Californian and Australian gold discoveries. There followed a generation of economic expansion and prosperity in this country such as the world had never seen before. The whole of this was credited to Free Trade and created a psychological fixation which no subsequent decline in our position, no example of progress elsewhere, no argument could seriously shake. Neither Joseph Chamberlain's passionate campaign for Empire co-operation, nor even the marked success of the emergency measures of protection and preference forced on us by the economic crisis of 1931, did more than intermittently lift a corner of the self-imposed mental iron curtain. The steady downward sag of our competitive position and the increasingly precarious nature of our unbalanced economy caused little real concern either to politicians or to economists.

On the contrary, the main movement both of economic and political thought in the last generation has assumed throughout that, thanks to machinery, we had solved the problem of production, and that the only problem that mattered was that of distribution, whether by social legislation or by the direct state control of industry. That, for us at least, the problem of production and, indeed, of existence depends entirely upon the extent to which our policy and that of other nations enables us to secure the raw materials and foodstuffs without which half our population would starve, was cheerfully ignored or assumed to solve itself. Even the long continued unemployment of the inter-war years, culminating in 1931, was debited, not to the lack of a trade policy, but to "capitalism" in the sense of the private organisation

of industry. Ever more and more the masses of our people were taught to believe that a millennium of secure employment, higher wages, shorter hours and continuously increasing social services lay before them if only the right people were in power.

By the irony of fate the climax came with the end of the war when a Socialist Government took office to carry out a generation of promises at the very moment when the economic foundation for their realisation was suddenly withdrawn. In terms of a graph the steep upward curve of expectation and the downward curve of capacity to fulfil that expectation crossed, leaving a yawning gap which could only be closed by a drastic reduction of the one, unless and until met by the effective raising of the other—except to such extent as it might temporarily be closed by an American loan while both processes were vigorously set in operation. The temptation to apply for such a loan was natural. But that any British Government should have accepted a loan under the conditions attached to it can only be explained by the fact that, even in 1945, our real situation was not even dimly understood by Ministers or by their official advisers. For the conditions were such as were bound in every way to reduce the value of the loan and to preclude all possibility of our recovery through the effective control of our own trade policy and through the development of co-operation within the Empire.

Such, in a few sentences, is the story which I have set out in the first nine chapters of the present book. They incorporate, in revised form, much of what I had already published nearly two years ago in a critical study of the Washington Loan Agreements and of the obsolete and shortsightedly selfish economic policy which the United States Administration has been determined to force upon the world and, in particular, upon the British Commonwealth.[1] What even the severest critic of those agreements would not have ventured to predict is the rapidity with which the loan would be exhausted, leaving us in worse plight than if we had never accepted it, and driven, one after another, to

[1] *The Washington Loan Agreements*, Macdonald & Co., 8*s*. 6*d*.

repudiate its conditions as, in effect, unfulfillable. It is to that sorry tale, as well as to the concurrent, but fundamentally incompatible American policies pressed forward at Geneva and implied in the Marshall initiative, that I have devoted the subsequent chapters, leaving to the end an outline of the measures necessary to enable us both to avert immediate catastrophe and to restore new life and hope to our enfeebled and war-shattered economy.

An enormous effort and heavy sacrifices are required of us in the next few years. They can only succeed if they are sustained by a complete revolution in our outlook, by a moral and intellectual awakening. On the moral side what is needed, above all, is that sense of a common interest and of a mutual duty and responsibility which was evoked by the emergency of war. The doctrine of short-sighted irresponsible selfishness, once preached in the interest of the capitalist employer and since then, by a natural reaction, in that of the employed class, is to-day proving as destructive of the very means of our existence as a nation as it once threatened all human values in the life of the masses of our people. Only a new spirit, the spirit of co-operation, stirred by the sense of a common danger and of a common hope, will give to employers a true and sympathetic understanding of the needs and outlook of their workers, and to those workers an interest in the social and national value of their work. There can be no more foolish or disastrous notion than that only those who are working in a state-owned industry are working for the nation. Every one who does good work, in whatever capacity, is a public servant and is working for the nation. Every one who does bad work, whoever his employer, is a profiteer at the public expense.

In any case there is no more dangerous verbal fallacy than the prevalent one of identifying the state with the nation. The nation is a living organic entity, and, like all other living things, complex in its structure, including many component organisms and loyalties within itself. Of these the state is the central directing and controlling organism, but can only succeed, and the whole body corporate of the nation thrive, if its various subordinate organisms and institutions, as well

as the individuals who compose them, can function freely within their sphere, and if their work is recognised as an essential contribution to the national life.

On the intellectual side we must free ourselves from the predispositions of that shallow pseudo-scientific approach to the problem of national life of a so-called Political Economy which, in its successive variants from "orthodox" bourgeois capitalism down to Marxist Socialism, has for so long bemused our thinking and distracted our energies. What Carlyle termed the "dismal science" may have deserved that adjective. But what was wrong with it was not so much the dreary nature of its conclusions as the pretence that it was in any sense scientific. It was in essence based, not on an objective study of the life of communities or nations as a whole, and of its bearing on the tasks of statesmanship, but on generalisations from the current features of individual activities within the community. Such features as capital, labour, profit and rent were, by the mere process of spelling them with capital letters, treated as basic and dominant elements in the economic process and as having the same meaning in their collective or national application as in private business. It was by this elementary process of abstraction that Adam Smith "proved" that the sum total of the National Capital being fixed, it could not be increased, but only diverted to a less profitable purpose, by the protection of a new industry. In the same way his successors proved, to their own smug satisfaction, that, the Wages Fund being fixed, one section of workmen could only raise their wages at the expense of some other section, and that wages must by sheer economic law, and in the interest of all concerned, be kept down to subsistence level.[1]

The conclusion was as absurd as it was monstrous. Unfortunately it was much easier for those who felt the injustice of the contemporary relations of capital and labour, instead of rejecting the main analysis and terminology of the orthodox economics and approaching the whole subject in a more

[1] These elementary logical fallacies, which underlie the whole teaching of the "orthodox" school and of its successors, are dealt with more fully in a little book, *Fundamental Fallacies of Free Trade*, which I published more than forty years ago.

scientific and objective spirit, to take them for granted and use them for their own purpose. If, from the individual capitalist's point of view, wages were a deduction from profits, what could be simpler than to invert the conclusion and argue, from the labourer's point of view, that profits were an abstraction from wages? Why then should not Labour, as a class, secure those profits for itself by taking over the control of Capital? As a majority of the population it could do so most easily through the machinery of municipal or national government, and so see to it that the profits went to the workers in the shape either of better pay or of social services. It is this elementary inversion of the old capitalist economics which is the basis of all the various schools of Socialist thought. If one of these, Marxism, has had a greater influence than any other it is because its founder added to this inversion a peculiar flavour and compelling influence all his own. By blending with it an ingenious adaptation of the Hegelian "dialectic" of verbal antithesis in the shape of a dialectic, i.e. conflict process, of a material world governed solely by economic considerations, and by a plausible, but entirely inadequate, version of history to support it, he opposed to the orthodox claim to scientific exactitude an even more pretentious claim to scientific profundity. That, together with an apocalyptic vision of the downfall of Capitalism and the millennium of a classless society to follow, and an abundant infusion of the hatred and arrogance of his own temperament, provided just the material that was required for a Bible of world revolution.

What is essential for us to realise is that neither the *laisser-faire* nor the Socialist variant of the old economics have any bearing on the real problem before us. That is a problem for political economy in the truer and more scientific sense of the economy of national life as a whole. In that sense the economics of national life are only a branch or development of what, in the botanical or zoological field, is called ecology. They deal with the relation of a particular human society to the natural resources at its immediate or indirect disposal. They are rightly termed political in so far as the numbers and well-being of a nation depend, not only on

those natural resources, but on the organisation of the community as a whole, on the maintenance of law, on the spread of scientific and technical knowledge, on the political encouragement given at home to the development and due balance of various forms of production, and to the expansion of that balance of production by external trade.

Our own problem is that of a national ecology that has been allowed, as the result of the paralysing effect of false theories, to become desperately unbalanced, both at home, through the neglect of our agriculture, and abroad through leaving to chance the vital question of assured complementary markets for our surplus skill to meet the deficiency in our natural resources. Above all, the material and population base of our economy is not only inadequate, under conditions of modern technical production, to secure the maximum of productive and competitive efficiency, but also wholly incapable of sustaining our international responsibilities or even our security. We can only survive if we can reorganise the material base of our economic and political life on a scale comparable to that of the great units of political and economic power, such as the United States and Russia, which now threaten to dominate the world.

What applies to us applies equally to our partner nations of the British Commonwealth. However great their potential resources, none of them can provide at present, or for many long years to come, the material base for a sufficiently prosperous or secure existence for itself. Working together to match each other's resources and stimulate each other's productive energies we can between us provide a common base whose development in welfare and power should, even in the next few years, ensure our recovery from the exhaustion of war, and might well in the course of three or four generations outstrip the United States. Nor is the same principle any less applicable to the war-ravaged nations of our neighbour Continent across the Channel. In the changing scale of world affairs the European Great Powers of yesterday are to-day inadequate individually to maintain either their standard of life or their political independence. Joining together to establish for themselves a common base, a "living space" created by

free co-operation, the nations of Europe, or even, for the time being, of Western Europe, together with their tropical colonial dependencies, need certainly not fall behind any other world unit in their standard of living or in the contribution they can make to their own security and to the peace of the world.

At this point, however, the natural and rightful solution of the problems both of Europe and of the British Commonwealth is endangered by the rival economic and political policies of Russia and the United States. On the one hand is the policy of assured employment at the price of economic and political enslavement. On the other is the policy which demands a free field for American surplus production and financial power to create chaos and instability in a world of small economic units forbidden to come together for mutual support and development. For Europe the most immediate danger is that of Communist revolutionary violence making use of economic misery in order to incorporate one country after another in the totalitarian police tyranny. The danger from America is the more indirect one of the American veto on any practical co-ordination of the European economies.

We, for our part, are in less immediate danger from Communism than from American economic aggression. On the main issue of human freedom, indeed, we stand as one with America, and there can be no doubt on which side a world conflict would find us. On the other hand the American economic policy is one which not only would subject our freedom to control our own economic life to the strait jacket of an international scheme dominated by the United States, but is directly aimed at disrupting the economic ties which have grown up between the nations of our Commonwealth. It not only makes recovery for us impossible. It raises a constitutional issue of far graver import. The British Commonwealth is based, not on any rigid federal constitution with its uniform tariff, but on free co-operation in every aspect of the national life of its members. The American demand for the elimination, or even the limitation, of Empire Preference is a direct denial of the right of the Commonwealth to exist. The united strength of that Commonwealth saved the world

in the last war. Are we now to be forbidden to help each other to recover from its consequences or to strengthen each other to play our effective part in preserving ourselves and the world from another such catastrophe? That is an intolerable interference in our own family affairs which should have been met from the outset by an unqualified rejection and which, sooner or later, must call for a straightforward British Declaration of Independence.

Imperial Preference, in that sense, is our own affair and no one else's. In another sense, however, it is more than our own affair. The political and economic principle which the world needs to-day is neither a resuscitated internationalist *laisser-faire* nor totalitarianism. It is the principle of Ordered National Freedom and stable Mutual Co-operation within groups of nations drawn together by ties of common history, of kindred race, of political outlook, of geography or of economic interest. The basis and starting-point of such a system must be the nation, namely the unit of political and legislative action, of taxation, of social and defensive policy—above all the unit of sentiment. No economic policy can work in the world of to-day which is not co-ordinated with the whole of the national life. The idea of the world as one economic unit for production, trade and finance, irrespective of national frontiers, is as divorced from all practical reality as is the idea of a world governed by a single economic ideology.

Such a group economy based on mutual co-operation, which in practice means on preferential arrangements in respect of tariffs or state purchasing arrangements, of investment, transport and communication, is essentially mutual and inward-looking rather than aggressive. Each of its members is still free to regulate its own economic relations with countries outside the group whether bilaterally or under a modified Most Favoured Nation Clause. The group, as such, is not in a position, as are unified blocs like Russia and the United States, to exercise coercive collective economic action against other countries in order to incorporate them in the sphere of its economic system. Nor would the group, divided as it would be into separate compartments by the

internal bulkheads of its inter-group tariffs, be nearly so liable to great economic fluctuations exercising a disastrous effect not only on its own members but upon the outside world.

My profound conviction is that a group of the type of the British Empire and Commonwealth, based on mutual preferential trading and purchasing arrangements, and on a commonly accepted expansionist monetary system like sterling, is the ideal next stage in world economic, as well as political, evolution. It can find room within itself for an almost unlimited variety of economic organisation, individualist or socialist, high tariff or low tariff. Subject to their mutual preferential arrangements its members are free to trade with other nations, whatever their economic policies, to whatever extent suits the convenience of each of them. There is no question of a Chinese Wall of high tariffs round the group excluding outside trade, but only one of priorities, first within the group and then to those outside with whom the most fruitful terms can be arranged. On the contrary, the wider the field and the greater the security and stability within the group, the easier it is for its members severally to follow a liberal policy towards the outside world.

Throughout our long history we have blazed a trail in economic policy as well as in the building up of constitutional freedom. The British Commonwealth to-day, based on free co-operation between free nations over the whole field of national life, has justified itself in the hour of trial. Our rightful task and duty is to develop and perfect that free and flexible system, not only for our own recovery and future security, but as an example to the world of the next step in its political and economic evolution from the existing national anarchy.

I have spoken throughout the subsequent pages with complete frankness about the shortsighted selfishness of the obsolete economic policy to which the present United States Administration has been wedded. No one believes more sincerely than I do that the peace of the world depends on the mutual understanding and abiding friendship of the English-speaking peoples. But mutual understanding must be based

on mutual frankness (in which respect, indeed, our American kinsfolk are rarely lacking), and friendship can only survive as between equals, and not on coercion on one side and weak appeasement on the other. Nor do I believe that it is impossible on this issue to make America understand a case which we have never yet attempted to put clearly before her, or realise that a strong and united British Commonwealth is an essential element in the future structure of the world. The Marshall initiative, now being followed up by American official and public opinion in so generous a spirit, has shown at any rate an instinctive realisation of the true needs of the world to-day, and its underlying principle of encouraging self-help by mutual co-operation is at least as applicable to the British Commonwealth as to the nations of Europe. The blame, indeed, for such misunderstanding as has arisen, or may yet arise, lies far less on the side of the United States Administration, which has never hesitated to make quite clear what it wanted, than with our own successive Governments which have shrunk from stating our own case, or, even more perhaps, have not known what our own case was. Once we know our own mind all else will follow.

December, 1947 L. S. AMERY

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Appendix

THE AWAKENING

CHAPTER I

THE RISE AND DECLINE OF BRITISH INDUSTRIAL SUPREMACY

> "It may be vain now, in the midnight of their intoxication, to tell them that there will be an awakening of bitterness; it may be idle now, in the springtide of their economic frenzy, to warn them that there may be an ebb of trouble. But the dark and inevitable hour will arrive. Then, when their spirits are softened by misfortune, they will recur to those principles that made England great, and which, in our belief, will only keep England great. Then too, sir, perchance they may remember, not with unkindness, those who, betrayed and deserted, were neither ashamed nor afraid to struggle for the 'good old cause'—the cause with which are associated principles the most popular, sentiments the most entirely national, the cause of labour, the cause of the people, the cause of England!"

LONG deferred, the prophecy of Disraeli's impassioned last protest against Peel's abandonment of the historic principles of British economic statecraft has come to fulfilment. The "dark and inevitable hour" has arrived when our only hope of present recovery and future greatness lies in recurring to those principles, and in going back upon the century of misguided subservience to a fallacious theory which has brought us to our present plight. To understand how we have come to this pass it is necessary to go back, however briefly, upon our past history and to sketch, at least in outline, the story of England's rise to economic pre-eminence among the nations and of her subsequent relative decline and increasing vulnerability.

England's rise to greatness was due to no mere accident—though her rich resources in coal and iron ore played their part—nor to any original innate quality in her people. It was the result of deliberate statecraft devoted over centuries to the development of wealth-building industries and to the creation of ever new and varied aptitudes in her people. A backward agricultural and pastoral country in the Middle Ages, her one source of profit was the export of raw wool which was sent over to Flanders to be worked up into woollen cloth. The first really decisive step to transfer the cloth-making industry to this country was taken in the reign of Edward IV by the restriction or even prohibition of the export of raw wool and the imposition of heavy duties against the import of woollen cloth. As the English woollen industry grew the Flemish, deprived of its chief source of raw materials and of one of its main export markets, declined. Presently, with a great home industry and more than enough raw material, England became the world's leading exporter of woollen goods.

The aptitude in spinning and weaving thus fostered in Englishmen was later turned to good account in the creation of a linen industry and, helped largely by the skill and taste of refugee Huguenot weavers, of a silk industry. But the most important development in this field was the deliberately forced creation of the cotton industry. So inferior in quality and price were our first attempts at producing cotton goods that for a long time the import of the calicoes and muslins brought to Europe by the East Indian Company from the East was absolutely prohibited in this country. As a still further stimulus a bounty on the export of cotton goods was imposed in 1783, with the result that between the years 1780 and 1812 our export of cotton goods rose from £370,000 to £16,500,000. A whole new population, a vast accumulation of new capital, an immense development of new activities and abilities were the fruit of an industry practically created by legislation.

Exactly the same policy of prohibition and protection was employed to foster the iron industry. As early as the days of Edward III the export of iron was forbidden. Edward IV absolutely prohibited the importation of ordinary iron goods,

such as locks, hammers, pincers, scissors, pins, etc., which, up to his time, had been chiefly supplied by Germany. Under Elizabeth and the Stuarts Parliament consistently carried on his policy. From 1738 onwards, when the art of smelting iron with coal was perfected, the British iron industry made enormous advance, always with the help of duties ranging from about forty per cent up to several hundred per cent.

On the basis of the two great primary industries of wool and iron all the other internal industries and trades of this country were built up. Each industry created aptitudes that were useful for other industries; each provided capital and population available for fresh developments; each furnished a market for the products of the others. The demand for spinning and weaving machinery created the machine industry; the need for pumps to keep water out of the coal-mines created the steam-engine; the rail or the tramway was originally devised for hauling coal or ore. Anyone studying the history of the locomotive can see that but for the British mining industry it could never have come into existence. As Mr. Wells once pointed out, the railway engine was the descendant, by a gradual process of evolution, of a steam-pump mounted upon a truck. The industries fostered by the policy of the English Government were the direct creators of the mechanical skill that made England so famous a century ago. Without the flourishing wool and cotton industry there would have been no Cartwright to invent the power loom and the wool-combing machine. Without the mine industry dependent upon a protected iron industry there would have been no Watt or Stephenson. The steam-engine would no doubt have been invented some day or other, but it would not have been invented when it was, nor would it have been invented and developed in England.

To the theorists of a later age all these efforts to create and foster industry seemed mere futility. They could think of them only as restrictions on the freedom of trade without pausing to inquire whether without those "restrictions" either the industries or their foreign trade would ever have come into existence. List, the German economist, realised the historical truth of England's development far better. With

him the appeal to English history was the final verdict against the doctrinaires.

> "From every country of the Continent this island borrowed its peculiar aptitudes and planted them under the shelter of her tariffs upon her own soil. . . . Once in possession of a branch of industry she fostered and nourished it for centuries like a young tree which needs support and attention. If there is anyone who does not know that any branch of industry can be made profitable in course of time by diligence, skill and thrift, who does not know that in a nation which has already made some progress in agriculture and general civilisation, young industries, however imperfect and dear their products may be at first, will soon with practice and under the stress of internal competition equal those of older countries in every respect; who has not realised that the prosperity of each separate branch of industry is conditioned by the prosperity of every other branch; who does not know to what degree a nation can develop all its productive powers if it studiously takes care that each generation should continue the work of industry where the last generation left off—let him, I say, study the history of English industry before he essays to build theories and to give advice to practical statesmen, into whose hands the weal or woe of nations is entrusted."

From the internal industries of England let us now look at her no less important external interests. The foundation of England's position in world economics was the Navigation Act of 1651. There was shipping legislation to favour British shipping as early as the time of Richard III, but the Navigation Act first laid the basis of a deliberate continuous policy. The legislators of that day found that the carrying-trade between England and the English colonies across the Atlantic was in Dutch hands, and they determined that it should be in English hands. It was no question as to who could do the carrying better. The Dutch, with all their experience and accumulated capital, could always beat our shipping on equal terms. But they were powerless to fight against us in a case, such as that of the trade between England

and her colonies, where we had the control. It was not in virtue of our being able to offer cheaper freights, but by extending our control, either through direct legislation or treaty, or by the indirect use of the power which our greater industry gave us, that we successively ousted the Dutch shipping from one trade after another.

The Methuen Treaty of 1703 made the Navigation Acts even more effective by securing for us, at the price of having to drink port wine, the whole carrying trade with Portugal and the Portuguese possessions. The same principle of control was the foundation of England's colonial policy. It was a policy based on the deliberate fostering of the Colonies both as the purveyors of the raw materials that England required for her own industries, or of those tropical or sub-tropical products which she could not grow herself, but could make a profit by distributing, and also as the customers of the manufactures England wished to sell. Cotton, sugar, tobacco in the more southern colonies, timber, hemp, tar, iron ore in the northern, were encouraged by every sort of preferential regulation. Many manufactures were forbidden as competing with the manufactures of England. The success of this policy of mutual stimulation and expansion will be dealt with more fully in a subsequent chapter.

From the long Napoleonic wars Britain emerged supreme in industry, commerce and finance. But the new era which then opened required a modification of economic methods, though not of principles. A world of relaxed international tension called for a more elastic and less crudely monopolistic control of trade. A tariff system, originally devised for purely economic purposes, had, owing to war necessities, been smothered beneath the weight and indiscriminate distribution of revenue taxes. Not manufactures only, but every kind of raw material was taxed. The justifiable desire for self-sufficiency and for the preservation of a balanced economy was, in the Corn Laws, carried to undue lengths under the pressure of the landlord interest. There was a strong case for lowering and, in many instances, abolishing duties, as well as for negotiating with foreign countries for mutual reductions. Much, indeed, was actually done in these directions, notably

by Huskisson, who transformed the monopoly of colonial trade into a system of moderate tariff preferences, and by Peel himself. But the tremendous vogue of the new economic *laisser-faire* theory, already dominant in the field of domestic economics, the short-sighted self-interest of manufacturers who believed that Free Trade would both discourage foreign manufactures and keep down British wages, and their class hatred of the Tory squirearchy, combined with social discontent, industrial depression and bad harvests to sweep away every vestige of a guided and planned national and Imperial economy.

The new policy undoubtedly had its attraction for this country, as it has for the United States to-day, in virtue of our predominant position in industry, commerce and finance. During its heyday, i.e. between 1845 and 1875, we produced more iron and steel, more textiles and, in fact, more manufactured goods of every kind, than any other country and, in most of the great staple industries, than any other two countries together. After the American Civil War we almost monopolised the world's shipping. We were the only great creditor power. Our theoretical belief in the system as good for the world was blended with a robust economic imperialism which believed that it would help to stereotype the position of Britain as the world's supplier of manufactured goods and of the rest of the world as producers of cheap food and cheap raw materials.

Nor was the new policy at first without its attraction for other nations, who were inclined for a time to believe that Britain's success was due to it and not to the economic strength which she had previously built up by very different methods. It was also helped by the general conditions of the world, most of which was still unopened and undeveloped, even for primary production, and in which industrial production was confined to very few nations. But above all it was helped by a purely fortuitous circumstance. So long as money was regarded as a material substance its existing amount limited economic activity and could only be prevented from exercising a deflationary effect if new gold and silver were mined in proportion to the development of productive activity. The

shortage of the precious metals and our own deflationary monetary policy, culminating in the Bank Act of 1844, were a substantial factor in the long depression which helped to bring about the triumph of the Free Trade theorists.

Within three years of the abolition of the Corn Laws the depression was swept away by the Californian and Australian gold discoveries—the greatest economic stimulus to Western civilisation since the original discovery of the gold and silver of the Americas. British industry benefited above all because Britain controlled the Californian and Australian trade, and received the great bulk of the gold in exchange for her goods. With the general revival of industry came an enormous expansion of railway construction in Europe and America. England had invented railways. In building locomotives, in making rails, in laying permanent way and bridge building, British manufacturers and engineers were a generation ahead of all the world. The whole world wanted railways and machinery, and Britain alone could supply them.

Never in all history had there been such an expansion of economic power and prosperity as this country achieved in the thirty years that followed the inauguration of Free Trade. Given the trend of public thought and feeling at the time it is no great wonder that the British public assigned the whole credit of this expansion to the new policy. What had been an intellectual theory open to argument soon came to be regarded as an axiom of economic science which it was absurd and even immoral to question. Protectionist policies elsewhere were regarded with complacent contempt as bound to defeat themselves and to that extent only calculated to promote Britain's world ascendancy. Long after these policies had, in fact, proved successful, not only in building up great industries at home and outstripping us in production, but also in actual price competition in neutral markets, public opinion refused to believe that the policies themselves had had anything to do with the success, or that our own policy could in any way be affected either by the example or by the competition of others.

Even when Free Imports were challenged by Joseph Chamberlain's great campaign there were few of his followers who disputed fundamentally the underlying doctrine of

international economic *laisser-faire*. Imperial Preference and retaliatory protective tariffs were generally regarded by their advocates as deviations from an accepted theory necessitated by special circumstances. It was this persistence of the underlying free trade assumptions which accounted for the lack of sustained conviction on the part of Conservatives in pressing forward their policy and for their half-apologetic attitude in defending it even when, as in the years after 1932, it had proved outstandingly successful.

As for their political opponents, Free Imports were, for Liberals, almost a religion, and this long remained true even for a large section of the Socialist Party. It must always be remembered, not only that the British Socialist Party was in its origins an offshoot of the Liberal Party, but also that the whole Socialist economic doctrine was merely an inversion, from the angle of Labour, of the abstract capitalist theory on which Free Trade was based. In any case the Socialist movement grew up in an atmosphere in which only the internal economic structure of the nation seemed a matter open for discussion and in which its economic life in its external aspect was taken for granted. It is not too much to say that the Socialist leaders, as a whole, have only in the last few months become aware of the existence of an external economic problem or of its relation to domestic policy.

It is this deep-seated instinctive acceptance of the Free Trade theory, created by those wonderful thirty years of the last century, that accounts for the attitude of weak compliance, first of the Coalition War Cabinet and then, unreservedly, of its Socialist successors, towards the American insistence on our committing ourselves to a reversal of the whole course of world economic policy since 1879 and to a revival of the promiscuous international trade which prevailed before that date, although that policy was bound to be fatal to any hope of British—or for that matter European—recovery after the War. No one in authority seems to have faced the fact that we had long ago ceased to be in a position when such a policy could have favoured us.

But to return to the course of my narrative. The great expansion of the last century was, as I have explained, largely

due to the gold discoveries and to their stimulating effect on a world just opened out by discovery and migration. The first serious check came when the process of expansion was suddenly reversed, in its monetary aspect, by the demonetisation of silver in the seventies. Up to that date the world's money consisted, not only of gold but of silver, the two interchangeable at a fixed ratio. The latter was the sole basis of currency in Asia and South America, but was linked to gold through the bimetallic system of Europe and the United States. In 1873 Germany, finding herself, owing to the unexpectedly rapid payment of the French war indemnity of £200,000,000, in possession of a large currency surplus, decided to imitate England by going on to a purely gold standard and proceeded to sell off large quantities of silver. Political pique, rather than any valid economic reason, led France to retort by closing her mint to the free coinage of silver. Others followed suit and a landslide started. A short-sighted notion that we, as a gold standard and a creditor country, stood to gain by deflation led us to defeat every attempt at an agreement to restore silver to its customary position.

The resulting currency contraction led to the most severe depression the world had then known. The immediate fall in the price of all primary products, coinciding with the first effective competition from America, threatened European agriculture with immediate ruin. In this country we let agriculture go down, and the whole balance of our national life be upset, rather than modify our theories. But Germany, France and Europe generally were not prepared to sacrifice an industry which they valued, not only for social and military reasons, but as the best home market for their manufactures. To make sure of this they had not only to protect agriculture itself, but also to protect the home market against the vigorous dumping of British manufactures by which we were for a while able to meet the first effects of the fall in world prices. Industrial, as well as agricultural, tariffs were raised all round.

A monetary contraction was the immediate cause of the breakdown of the free trade system towards which, up till that moment, we had still hoped the world was moving. But there

was no question of a resumption of that movement when, in the nineties, the South African gold discoveries once more eased the currency situation. For by then economic internationalism was beginning to go out of favour everywhere except in England. After the first enthusiasm for following the example which seemed so successful in England, the nations began to bethink themselves, with List, on whose writings Bismarck based his whole economic policy, that it was a very different policy which had given her the pre-eminence which she was so determinedly exploiting. They decided that they, too, would, at whatever initial sacrifice of convenience, build up new industries to strengthen the total fabric of their economic system, to increase their populations and to swell their revenues. Considerations of defence, as well as of mere economic prosperity, played their part. Agriculture had to be protected as the best breeding ground for sturdy recruits and as providing assured supplies in time of war. But more and more modern war, on sea and land, was becoming dependent on industry, and the control of the great metal industries was an essential element in military preparation.

In high wage democratic countries, on the other hand, like the United States and the British Dominions, industry was impossible without protection against the lower wages, as well as against the superior skill, of England. Democracy, indeed, as it transferred power from capital to labour, almost everywhere, except in Britain, naturally swung in favour of national employment against international profits where the two were in conflict. With democracy, too, came social reform, both in the form of legislation limiting internal *laisser-faire*, and of steadily expanding social expenditure involving continually increased taxation. Both these handicaps to industry, from the immediate profit-making point of view, naturally demanded some countervailing element of taxation on competing foreign goods. An essential postulate of Free Trade had, in fact, always been a scale of national and local taxation so low as not to constitute an appreciable factor in productive cost.

Lastly the progress of science itself favoured the development of nationalism in economics by weakening the arguments based on the peculiar aptitudes of individual countries for

particular products. England's pre-eminence in iron and steel was challenged as soon as the Gilchrist-Thomas process brought Germany's iron ores into effective use. So, too, Germany's immense dye industry was built up on the work of another British inventor, Perkin, displacing not only the dyeworks of Britain, but the indigo fields of India. Few, indeed, are the industries which cannot to-day be made to flourish anywhere, if the will to create them is there. With science, too, came the technique of mass production, with its power of over-spill or "dumping" to secure the economy of expanding output.

All these various factors were themselves only part of a new outlook on national life, an outlook which no longer regarded nations as mere administrative subdivisions existing for the convenience—or inconvenience—of the individuals who were the only ultimate subject-matter of politics and economics. The new outlook is essentially more scientific because it realises that there is no such thing as an individual man, apart from the tradition and environment which have shaped him, and that historic groupings and associations of mankind in tribes, races, and states are enduring realities with which both political theory and practical statesmanship must reckon. That outlook has come to stay; is, indeed, growing stronger all the time as scientific, evolutionary, biological conceptions influence political and economic thinking. It is only the Rip Van Winkles of nineteenth-century thought, in America or here, who talk of economic nationalism as due to the domination of economic unreason, as an aberration from the true line of progress, and who delude themselves with the thought that it can be exorcised by international Conferences or Committees, and the way once more cleared for the economic promiscuity which is still their ideal. Economic nationalism has inevitably become one of the dominating conceptions of the present generation, and it is only those who are prepared to accept that fact, and to shape, guide and moderate it to their own ends, who can hope to control the future.

In any case the new outlook was increasingly justifying itself by its results. For a generation this country maintained its gross

total of external trade by finding new markets where old ones were increasingly closed to it. But its proportion of world trade steadily diminished as protected industries elsewhere developed into formidable competitors in the export market. What is more, the character of our external trade changed. Our exports instead of buying essential raw materials and foodstuffs were increasingly spent on competitive foreign manufactures. Our foreign trade was, in fact, no longer properly fulfilling the only function for which it exists, namely the balancing of our productive energies by securing complementary imports essential to our industrial production. The process was clearly reflected in the relative total volume of production—the only real standard of prosperity—as compared with our protectionist competitors. From being supreme beyond dispute in industrial production we had by the eve of the First World War fallen quite definitely into the third place, well below Germany and far below the United States.

For another generation after the adoption of protectionist policies by most advanced countries we consoled ourselves with the thought that they would presently discover their mistake. In any case we were still supreme where not actually handicapped by hostile tariffs and still the world's largest exporters. But more and more, from the beginning of the present century onwards, it was the competition of our protected rivals, in particular of Germany, the United States and Japan, that increasingly displaced our exports. By 1913 our proportion of world manufactured exports had fallen to one-third and by 1938 to less than one-fifth. Even this figure was very far from representing our position in terms of purely competitive prices. For it included our Empire trade, substantially half the total, in which we enjoyed a favoured position through preference, or, as in the case of most of the Colonies, through administrative and financial control. In 1938 the British Empire took 32 per cent of its imports of manufactures from this country. The world outside took 8 per cent. That represented our real competitive position under "non-discrimination." How weak that position had become was shown in the depression of 1931 when our imports of foreign manufactures topped the £300,000,000 mark and when, but for our Empire

trade, we had become, on balance, importers and not exporters of manufactured goods.[1]

Our decline was to some extent concealed from us, at any rate up to the First World War, by the fact that we had accumulated a vast unearned income, or invisible export, from past capital investment and were, indeed, able to add to it from the profits of our still unchallenged position of supremacy in finance and shipping. It must be remembered, too, that the change of outlook and policy to which I have referred, had not yet touched the sphere of monetary policy. Money was still universally accepted as a substance independent of state action. Unfettered freedom of investment was still regarded as natural long after trade had been very generally regulated. That this was so was largely due to the fact that the gold standard was so handled by the City of London that it worked. As a creditor country we not only accepted an adverse balance of trade, even when injurious to national production, but we kept gold in circulation by steady foreign investment. Even in 1913, with a visible adverse balance of £145,000,000, we still had a net credit balance of payments of £194,000,000. That was more than a sixth of the then total of monetary gold in the world. A cessation of British foreign investment for a couple of years would even then have resulted in a world economic crisis of the first magnitude.

What was not realised was that with the steady change in the whole conditions of world trade that control of the credit and investment situation could not indefinitely remain in our hands. Once it passed into the hands of countries deliberately or instinctively pursuing a nationalist economic policy the last remnants of the internationalist system built up by England in the nineteenth century would be irretrievably destroyed. That will be the theme of my next chapter. Meanwhile it is important to keep in mind that the system only really flourished for about thirty years. It did so thanks, firstly, to the general intellectual preconceptions of the age. Secondly, to the fact

[1] In the years immediately preceding 1914 our visible exports paid for 80 per cent of our imports. Over the period 1930–38, they covered less than 60 per cent. Even in the boom year of 1929 our exports were only 82 per cent of the volume of our 1913 exports. In 1937 they only represented 75 per cent.

that effective political power everywhere was in the hands of the capitalist employing and investing middle class. Thirdly, owing to the extent of the field for development open to a few industrial nations in a wholly undeveloped world. Last, but not least, to the coincidence of its adoption with an immense expansion of the monetary basis of the world's business. The last of these conditions was reversed suddenly in the seventies. The others all underwent the continuous process of change which I have described. That brings my story to the First World War.

CHAPTER II

AMERICA UPSETS THE WORLD, 1919–1931

IN THE last chapter I indicated the various causes which were steadily undermining the economic, political and intellectual foundations of the mid-Victorian world economy in the generation preceding the First World War. The process was enormously accelerated by the War itself. Not only were the chief combatants thrown on their own productive resources, to an extent previously unbelievable, by direct blockade or by the ever-present shortage of shipping, but the same shortage combined, in all the more outlying regions of the world, including the countries of the Empire, with existing protective tendencies to hasten the development of local industries and set up new vested interests against international competition. More important still the United States, as the chief supplier of both munitions and foodstuffs to the Allies, were suddenly transformed from a debtor into the greatest creditor in the world, on commercial account alone, on top of which they became the ultimate recipient of the greater part of the exaggerated indemnity imposed upon Germany.

The foundations of the whole nineteenth-century economic system were undermined. But the last to realise this were the statesmen who were responsible for the peace settlement and for the control of affairs during the next few years. They could only think in terms of a speedy return to the "normal", and their conception of the normal was coloured by the general internationalist outlook and phraseology still dominant at the end of the War, as well as by the accident of their own personal political traditions. Once more, under the influence of Geneva, frontiers were to lose their importance, and economic nationalism would fade away as political nationalism would lose its meaning in a world governed by the system of collective peace. Throughout the peace discussions, and at all the conferences which succeeded, not to speak of the meetings

of the League itself, it was bad form to express any views on economic questions which were not, in principle, internationalist. The world was assumed to have gone back, not merely to 1914, but to before 1879. Protection was a concession to local and temporary difficulties. Free Trade was the obvious ideal.

It is one of the disadvantages of the system of public conferences that statesmen feel obliged, in attuning themselves to the conference atmosphere, and in order to help to arrive at agreement, if only on a formula or abstract resolution, to use language which in no sense conveys the real intentions of the people whom they represent. Apart from England the last thing any country wished to do, or could afford to do, after the War, was to lower its tariffs. As for the new nations created by the War, their one object after the peace was to confirm and strengthen their hard-won nationality in the economic field, and to break all economic links that might still keep them in dependence upon their former rulers.

In one field alone were the internationally minded to secure a victory—a more than Pyrrhic victory. Economic nationalism before the War had not begun to encroach upon the domain of financial and monetary policy. The great banking fraternity everywhere were still completely internationally minded, so far at least as their own activities were concerned. For their purposes the existence of a single world monetary system was so obviously convenient that they could hardly conceive of any other object of policy being deliberately pursued. By a monetary system they meant the Gold Standard to which they had been accustomed and which had worked very well in their pre-War experience, i.e., since the South African gold discoveries had redressed the currency shortage and depression which had resulted from the demonetisation of silver. Few, if any of them, indeed, had conceived the possibility of any other system, or had advanced far enough in economic thinking to comprehend that gold, in itself, is not an ultimate measure of value. Their simple faith in gold and disbelief in the possibility of a scientifically managed currency system were naturally only enhanced by the catastrophic results of reckless currency inflation in Germany and

in other countries after the War. Thanks to their efforts—and everywhere governments regarded them as experts whose advice could not seriously be questioned—the chief countries of Europe returned to the Gold Standard in 1925–26. We led the van, childishly proud of doing so at the old gold parity, and thus enabling "the pound to look the dollar in the face".

Never was a more fatal step more lightheartedly taken, or in greater ignorance of what it involved. It is true that at Genoa in 1922 there had been warnings that a return to the international Gold Standard presupposed a greater measure of international trading and a better balance of international payments. But there was no realisation of the extent to which the change in world indebtedness and the set policy of the leading countries concerned had increased the difficulties and dangers of restoring a "normal" system which, in fact, had always been a highly artificial one. I pointed out in the last chapter that the world Gold Standard had worked smoothly before the War for the simple reason that there was still only one substantial creditor on total balance of payments, England, and that this creditor was steadily and consistently prepared to cancel her credits by the purchase of goods—regardless of the effect of that purchase on national production—or to postpone them by reinvestment.

Since then the control of the situation had passed into American hands. In 1930, to take a typical year after the restoration of the Gold Standard, the world was under obligation to pay the United States about £328,000,000. Of this sum, £156,000,000 was on account of the balance of American export trade; £122,000,000 was interest on commercial loans; £50,000,000 represented governmental war debts. At that moment, of a world total of £2,095,000,000 of monetary gold, over £1,000,000,000 was already in the United States, another £500,000,000 in France (the only other country in a position to accumulate gold). This left less than £600,000,000 to provide the currency reserves (at 40 per cent of the currency in circulation) of the rest of the world, and to meet the ever-increasing annual payment which America, under the conditions of the Gold Standard system, was entitled

to demand in gold, or rather, had to receive in gold if she was not prepared to go out of her way to take it in some other form.

That the restored Gold Standard did not break down from the very outset was mainly due to two circumstances. One was the enormous expenditure of Americans, during those years of prosperity and prohibition, on foreign travel (£166,000,000 in 1930). The other was that American financiers, encouraged by the Federal Reserve authorities, managed for several years to persuade the American public to embark upon the unwonted experiment of foreign investment on a colossal scale. When these counteracting influences were suddenly withdrawn as an incidental consequence of the great American speculative slump there was nothing to stop the draining away from every country of its available gold. This meant everywhere, on the principles of the international Gold Standard, a restriction of credit and currency, and a consequent fall in prices. In the course of 1930 wholesale prices fell some 25 per cent, and the fall continued even more rapidly during 1931.

Such a fall in prices, profoundly changing relations between creditors and debtors, and altering the whole basis of calculation upon which every business enterprise—whether farm, or factory, or even government—was conducted, could only end in a general crisis. By the middle of 1931 the crisis was fast coming to a head. Premonitory trouble in Austria and other countries was followed by the imminent collapse of Germany, which was only enabled to remain, even nominally, on the Gold Standard by a moratorium on all war debts and reparations payments—subsequently extended to all German external obligations. Within a few weeks we were drawn into the crisis ourselves.

Our own economic position had for some time been growing weaker. More than in any other country the bankers' influence had been exercised with disastrous effect. A policy of drastic deflation had enormously increased the real burden of our internal debt while pretending to reduce it. At the same time it directly penalised our export trade. Indirectly the attempt on the part of employers to adjust nominal wages to falling prices led to endless industrial conflicts, of which the greatest and most ruinous, the long-drawn coal stoppage of

1926, was the almost inevitable consequence of the extra turn of the deflationary screw applied in order to return to the Gold Standard at the pre-War parity in 1925. On top of all these difficulties the policy of Free Imports—by then a sheer insanity—was continued by the immense power of inertia, and by the inter-play of party politics.

While all the world, after a severe but brief set-back at the end of 1920, was rapidly recovering after the War, and had, indeed, effectively recovered before the inauguration of the fatal Gold Standard experiment, we continued in a state of relative depression throughout. From 1921 to 1929 we alone suffered from heavy chronic unemployment, the figures only once in all those years falling just below the million mark. More and more, in our own home market as well as abroad, we were being displaced by our competitors. In 1931 our imports of foreign manufactures topped the £300,000,000 mark, and, but for our Empire trade, we had become, on balance, importers and not exporters of manufactured goods. By far the most serious feature of the situation was the disappearance of our net balance of payments, which had fallen to £39,000,000 in 1930 and to an actual adverse balance of over £100,000,000 in 1931. In spite of this the habit of long term oversea investment was steadily maintained, even in the absence of genuinely realised earnings to invest, largely by the use of short-term money left in London by foreigners who found they could get good interest rates combined with what they believed to be the very maximum of security. That belief was shaken by the publication, at the end of July 1931, of the May Report, a document which, in effect, did little more than focus attention on the already well-known fact that the government was not, strictly speaking, attempting to balance expenditure by revenue. Foreign investors took fright and began withdrawing their money—in gold, as they were entitled to do. Neither a £50,000,000 loan raised in France and America by the Bank of England, nor the formation of a Coalition Government, nor a further £80,000,000 loan by that government, could stay the "flight from the pound", and on September 21st England went off the Gold Standard, i.e., ceased to regard herself as obliged to continue to exchange sterling into gold

at the fixed figure of £3 17*s.* 10½*d.* sterling an ounce. Her action was followed automatically by such portions of the British Empire as were permanently linked to sterling, i.e., East and West Africa, Malaya and the West Indies, and deliberately by India, Australia, New Zealand, the Irish Free State, Egypt, the Scandinavian countries, Portugal, Japan and Argentina. The attempt to restore a world monetary system had collapsed.

For anyone who wishes to understand how the vagaries of America's immense dynamic economic momentum brought about the world crisis of 1931 and how the nations managed in their several ways to retrieve themselves I can only recommend a close study of a remarkable report on "The United States in the World Economy" issued in 1943 by the United States Department of Commerce, and, fortunately, reprinted by our own Stationery Office early in 1944 (2/-). Space will only allow me to summarise the main outlines of the story which it relates and to give its main conclusions. But I have inserted sufficient references to the British edition of the actual report to help those who may wish to look more fully into the question. They will find in it, I think, a conclusive warning against the folly of linking ourselves up in a revived version of the internationalist system with so immensely powerful and so uncertain a partner as the United States.

The story begins with the immediate post-war boom in 1919–20 and its abrupt reversal by the "sharp recession in business activity in the United States" towards the end of 1920. From this, other countries were enabled, according to the authors of the Report (pp. 3–4), to make a rapid recovery because the international Gold Standard had not yet been restored and they were thus able to avoid internal deflation by getting rid of their gold stocks or by depreciation.

The years from 1922 to 1929 were marked, "despite internal currency disorders, controversies over reparations and war debts, and some growth of tariff barriers", by world-wide economic expansion. The restoration of the Gold Standard was generally carried out and made possible by an immense volume of American lending, encouraged by the United States Government and pushed vigorously by American financial

houses attracted by high interest rates. In the four years from 1926 to 1929 America poured between $7,300,000,000 and $7,500,000,000 into other countries, more particularly into Europe. Most of this investment, indeed, took place before the middle of 1928, when the attraction of the domestic boom deflected American interest from other markets. There was a slight revival in 1930, in the earlier phase of the American slump, but from then on practically the whole American support of the European economy was withdrawn. On top of it there was an almost equally complete suspension of the immense American expenditure on tourist traffic and of home remittances by European workers in America (pp. 71–9). A sharp upward revision of the American tariff in 1930, by the Hawley-Smoot tariff, only aggravated the disequilibrium. The measure of the reversal of policy is shown by a graph (p. 6) giving the total excess of dollars supplied by the United States through new investment abroad and purchases of goods and services over debt service payments to the United States as $6,500,000,000 in 1929 and $1,500,000,000 in 1932, a shrinkage of 77 per cent.

Against the tremendous momentum of these unforeseeable fluctuations on the part of the American economic system, which already in 1929 equalled, both in industrial production and in money income, the economic systems of the world added together, the individual nations were at first helpless. Paralysed by their reluctance to abandon the Gold Standard, their "endeavour to defend their exchange parities and reserve positions let the task of readjustment in their external demands fall in full force on their internal economic life, thus strengthening the forces of depression and deflation throughout the world generally".

In the end they were forced to take the remedy into their own hands, and, by one method or another, to get rid of the whole automatic system based on the Gold Standard and the Most Favoured Nation Clause. The Gold Standard was abandoned, tariffs were raised, direct trade and exchange control was used to keep trade within selected channels and limit it to the available supply of exchange, while preferential and commercial arrangements fostered trade between those

directly participating, and diverted it from other sources of supply. These techniques enabled the countries concerned to "absorb shocks from the outside without transmitting undue pressure to their internal economic structures" (p. 11). They were most effective in countries which were able to insulate themselves most completely and less effective in countries which, like Canada for instance (p. 195), were "perforce heavily dependent on the United States market".

> "The record of the thirties demonstrated that foreign countries, save for those narrowly dependent on the American market, could adapt themselves, after initial serious disturbance, to a relatively low level of exchange with the United States and yet attain a substantial internal prosperity and promote their trade with each other".
>
> "In general, the most successful adaptation was achieved by countries that depreciated their currencies and thereafter were able to pursue policies of monetary ease or to adopt more positive measures of economic expansion without the necessity of defending rigid gold parities. The members of the sterling bloc were, on the whole, outstanding. They not only attained, for the most part, their pre-depression levels of production and income by 1935, but also maintained virtually complete exchange stability among themselves, once the realinement of their currency ratios had been made during the depression, without depending on exchange controls or other intricate measures of direct intervention in the trading mechanism."

Not only was recovery rapid and far reaching in the countries which had recourse to these measures of total or partial insulation, but it was more rapid, more complete and steadier than in the United States (p. 10). Whereas under the international Gold Standard and Most Favoured Nation system set up in the twenties the mere cessation of American investment had spelled disaster to the world, the world was able, without detriment to its own recovery, and evidently without help to the American economy, to retransfer capital to America, between 1934 and 1939, to the extent of £6,000,000,000 (p. 7).

Nor, when a second severe depression set in in the United States in 1937–38 were other countries affected to anything like the same extent.

The authors of the Report, it must be remembered, were themselves believers in a single international trade and investment system and were, indeed, appointed by a government whose whole policy in every field has been dominated by the determination, by hook or by crook, to force the system upon the world and, in particular, upon ourselves. But they realised that it could only come into effect, without disaster to the rest of the world and to America, on certain conditions.

"A world economic structure organised on the basis of equal treatment and with large scope for free enterprise cannot be maintained in the face of such reductions in the supply of dollars as have occurred in our international transactions in the past. Unless the supply of dollars is more adequate to meet the requirements of other countries, they assuredly will insist on their right to exercise a close selective control over the use of the amounts available and to promote more intensive relations with third countries under preferential trading arrangements. And unless dollars are made available with greater regularity than in the past it would be both unjust and unwise to demand the removal of restraints and controls largely designed to protect the internal economies of other countries against external shock and pressure (p. 13)."

"Moreover, as domestic factors appear to have been chiefly responsible for the violence of our economic fluctuations in the past, so the remedies must be found largely through the development of a sounder internal economic and financial structure (p. 14)."

"By way of final conclusion, based on the experience of the entire inter-war period and strongly reinforced by events towards the end of the period, it is clear that—whatever may be the other requirements—stability in international economic relations generally and in foreign exchange rates in particular, cannot be assured solely or chiefly through technical financial arrangements, but must be

firmly based on a vigorously and regularly functioning domestic economy (p. 200)."

What guarantee is there that these conditions of internal economic stability in the United States and consistency in American external expenditure or investment are likely to be fulfilled? The authors of the Report had no suggestions to offer in this field. They simply noted that on physical principles "force is equal to mass multiplied by acceleration", and that the immense "mass" of the United States in the world economy had so far been accompanied by an "amplitude and vigour of industrial fluctuations considerably more pronounced than in foreign countries". Do the trifling relaxations envisaged by Bretton Woods in the application of a monetary standard tied to gold and avowedly aiming, not at price stability, but at fixity of exchange, or the American commercial policy for promiscuous international trade with its veto against all economic co-operation between nations, afford any adequate insulation against the devastating effects of internal economic fluctuations in the United States, whose "mass" and "momentum" relative to the rest of the world are now far greater than even in the inter-war period? Will the relatively small sums available through Bretton Woods have any adequate effect to counteract the "mass" and "momentum" of what free American citizens will decide to do with their money by way of investment, purchase or travel? Will the mere reduction of the American tariff afford any guarantee of a really adequate and steadily maintained increase in the sum total of American imports?[1] Can anyone contemplate the terrific economic and political issues which the New Deal and the War have raised in American life and imagine, for one moment, that the future course of American economy, internal or external, will be that smooth, consistent, far-sightedly planned and self-restrained affair which the Report postulates as essential to the working of an inter-

[1] Between 1937 and 1938 United States income fell by 11 per cent. But imports fell by 36½ per cent, an indication of the devastating effect relatively minor fluctuations in the American economy can have on world trade irrespective of the level of the tariff.

nationalist world order? And if not, then is it not sheer madness for the nations of the world, or of the British Empire and Commonwealth, to abdicate beforehand their right to insulate themselves by any and every appropriate method from the overwhelming impact of the fluctuations of the American system, whether singly or in combination with each other? The policy which Washington has been trying to force upon us is a sheer death-trap from which we must at all hazards extricate ourselves.

The American Department of Commerce may have hoped for a Report which would give its unquestioning blessing to the official American policy, since embodied in Bretton Woods and the Washington Commercial Proposals, as amended at Geneva, of a restoration of the automatic and non-discriminatory—i.e., promiscuous and unregulated—economy of the nineteenth century. If so, then the painstakingly honest authors of the Report were indeed Balaams in disguise. If they did not directly curse the policy which they were invited to bless, they made it clear that it must prove disastrous to all concerned, including America, unless accompanied by conditions whose fulfilment is left, so far as the Report is concerned, in the realm of pious aspiration. And if they did not directly bless the formation of substantial nation groups bound together by mutual preferences and currency arrangements and thus effectively insulated against the tidal waves of American economic vagaries, their statistics, facts and, indeed, their whole argument point irresistibly to that conclusion as the obvious path of safety.

CHAPTER III

THE DISCOVERY OF STERLING

THE USE of the precious metals as money, i.e. as a measure of value, easily stored and almost indestructible, exchangeable into goods and services of all kinds, has made an immense contribution to civilisation. From earliest times the desire for gold and silver was so universal that their use became even more important for the purposes of international than for those of domestic trade. As commerce and banking extended other temporary forms of money—bank notes, cheques, bills of exchange etc.—were devised. But they were all ultimately based on the assumption of their legal convertibility on demand, or at a given date, into metallic money. To this day, indeed, a British bank note for £1 bears on the face of it the statement that it is a "Promise to pay the Bearer on Demand the sum of One Pound," a statement completely meaningless in itself, as the only way in which the Bank of England could legally meet the demand is by the tender of another £1 note, but characteristic of British conservatism in the preservation of obsolete forms.

All the same, as I pointed out in Chapter I, a system under which the quantity of money available could not be adjusted to national or even world productive needs, but might be rigidly limited by the absence of fresh mining developments, or even reduced by arbitrary factors, suffered from grave inherent disadvantages. It has throughout the ages acted as a limiting and at times even severely restrictive factor on the progress of civilisation.[1] Historians are agreed that the exhaustion of the Spanish silver mines and the steady drain of silver arising from the trade with India had no small part, through the progressive deflation and fall in prices which

[1] "The use of substances of intrinsic value as the materials of a currency, is a barbarism, a remnant of the conditions of barter. . . . In proportion to the extension of civilisation and the increase of trustworthiness in governments it will cease."—J. RUSKIN.

resulted, in the decline of the prosperity of the Roman Empire and in the internal weakness which brought about its collapse. Our modern European economic world, on the other hand, largely came into existence through the influx of precious metals which followed the discovery of America. In the last century we have had, on the one hand, the great stimulus of the currency expansion of the Californian and Australian gold discoveries and the steadying influence of the large continuous output of gold from South Africa, and, on the other, the two calamitous depressions resulting from the demonetisation of silver and from the more recent American action of sucking gold out of the rest of the world and then burying it. The vast bulk of the world's stock of gold is, in fact, to-day demonetised and I can see nothing in Bretton Woods or in the Geneva Draft Report that would indicate any prospect of its remonetisation or of any real expansion of world trade and production to follow.

Modern economists, indeed, have increasingly pointed out that, given sufficient confidence in the honesty and capacity of the issuing authority, a monetary system which can be expanded or contracted to meet the needs of national or world economy and so preserve the stability of the price level, would be the ideal to aim at. They would go even farther and affirm that it would pay a nation, or group of nations, to sacrifice the convenience of parity of exchange for the vital importance of a stable internal price level. The inconvenience of fluctuating exchanges, due to the absence of an international monetary system, is a real one, and very obvious to all who are engaged in international trade and finance. But the inconvenience does not extend to domestic transactions, nor to transactions with any other country whose currency system is linked to one's own. Even in general international trade it can be largely obviated by forward buying or insurance. On the other hand, a change in the value of money in terms of goods and services, while far less obvious at any given moment, is far more dangerous, because it affects the whole foundations of productive enterprise and the very structure of society. In the words of the Report of the Macmillan Committee (para. 204):

"Violent price changes . . . initiate social as well as economic disturbances which leave no part of the national or international order unaffected. . . . A study of history would, we believe, confirm the opinion that it is in changes in the level of prices, and in the consequential alteration in the position of debtors and creditors, entrepreneurs and workers, peasants and tax-gatherers, that the main secret of social trouble is found. . . . The problems thus raised transcend in importance any other of our time and generation."

The Macmillan Report, a remarkable and, indeed, prophetic document, was in the hands of the British Government in May 1931, and of the public some weeks later. The course of events, both in the financial and in the political world, during subsequent months would suggest that neither the Government, nor the Opposition, nor, least of all, the bankers, had read or understood it. For that matter it would be well worth studying again by our rulers—and by the Americans—before we invite a repetition of the catastrophe which the Report fore-shadowed so clearly on the eve of its occurrence. To return to 1931. I have already in the previous chapter described the desperate efforts made to avert that abandonment of the Gold Standard which was regarded by the Bank of England, and by the City generally as a catastrophe little short of the end of the world. The bankers' panic communicated itself alike to Government and Opposition. An emergency Government was formed to save the country, if not the world, from what a few weeks later was universally recognised as the best thing that could have happened.

It was, indeed, the best thing that could have happened, not only in its immediate effects, but because it led to the most momentous event in the history of world currency, namely the discovery of sterling as a self-contained measure of value. To our complete surprise we found that the assumption of gold convertibility, on which we had built up an exchange system covering all the Empire, except Canada, and not a few other countries, was in fact quite superfluous. No longer a mere superstructure resting on gold, sterling stood by itself, a mighty British oak, solidly rooted in British industry and

British integrity, casting its sheltering branches over a great part of the world, and all the stronger and healthier for our having cut away the choking and restricting embrace of a rigid Gold Standard. Accidentally and in spite of our own desperate efforts we found ourselves in control of the ideal monetary measure of value which theorists had dreamt of, a measure of value self-contained, enjoying immediate exchange parity with a very large part of the world, practically as good as gold in the range of products it could secure at that parity and far better than gold in the fact that its volume—and therefore the sterling price level—could be freely adjusted to meet the needs of production and trade.

Nor was the change-over from gold to self-contained sterling accompanied by the disastrous rise in prices which the pessimists had predicted. On the contrary, the proportion of our essential supplies which we drew from sterling sources was already so substantial, and the need of those outside the sterling area to sell to us so great, that sterling prices governed the situation. They remained practically unchanged, while the gold countries went on sliding towards ever falling prices and ever greater difficulties. The mistake, indeed, was that the Government and, not least, Mr. Neville Chamberlain, as Chancellor of the Exchequer, though somewhat half-heartedly committed in Parliament and in conference with the Dominions, both in 1932 and in 1933, to restoring the wholesale price level in accordance with the recommendations of the Macmillan Report, were not prepared to follow up their professions by any clear-cut policy of action.

Australia and New Zealand had, indeed, given a lead by their previous devaluation of their own currencies, and came through the world depression better than any other countries (except Sweden and Portugal which independently pursued similar policies of reflation). President Roosevelt went even further to avert the disaster which American demonetisation had brought upon his own country, as well as upon the world, by suddenly cutting the gold content of the dollar in half. British reflation might with advantage have gone further than it did. Still even so we made that remarkable recovery to which the American Department of Commerce's Report

bore such eloquent testimony. Nor was there subsequently any excessive difficulty in preserving a working parity of exchange between sterling and gold through the operation of the Exchange Equalisation Fund.

Immensely important as was the contribution which the new monetary system made to our recovery before the war it was far exceeded by the service it rendered during the war. Outside the sterling area we received invaluable assistance from Canada's generous, and unconditional, gift under Mutual Aid and from American Lend-Lease, coupled as it was with stipulations whose full purpose is only now gradually being revealed. But we could never have won through without the additional £3,500,000,000 and more of goods and services for which we drew on the sterling area (or to a minor extent on certain countries which were prepared to take sterling as payment on special conditions). What is more this assistance involved no exceptional special concessions or stipulations. It was secured, as it was received, by payment in sterling.

To understand the nature of these transactions it is necessary to keep clearly in mind the method by which the sterling system works. It is essentially the same as the method by which the old Gold Standard was worked, only substituting sterling securities or credits for gold as the basis of the currencies of the countries attached to it. When a British purchaser buys from a country like India he pays in sterling to the account of the Indian Reserve Bank which issues rupees to the Indian producer. India's currency and her sterling holding are expanded. When India buys from us the purchaser pays in rupees to the Reserve Bank which pays out sterling here; both Indian currency and reserve are contracted. In the case of India we drew upon her for vast amounts of tea, jute, hides, manganese, etc., as well as for military equipment of every kind. Payment only accumulated here, and was temporarily held in sterling securities or credits, because the shortage of shipping, as well as the preoccupation of our industries with war production, prevented India from using it to satisfy the needs of her consumers. Where there were obligations here available for redemption, in the shape of over £350 millions of Indian Government or Indian railway securities, she paid

in cash. The working of the system was greatly strengthened and unified during the war by a voluntary agreement among the sterling area countries to pool their gold and dollar earnings and only to draw on them for essential war purposes.

To talk of the sterling balances held by countries in the sterling area as a debt, comparable in character to our indebtedness to America, is an utterly misleading confusion of thought caused by the persistence of out of date monetary conceptions. The problem is not, as it was in the case of our American debt after the last war, one of finding, by definite instalments, large amounts of a foreign currency or of gold. It is only one of honouring a currency which we have ourselves created, when and if in the course of trade and development holders of sterling want goods which we can supply. Or rather which we or any other members of the sterling area can supply. For India's sterling credits are just as much available for buying cotton from East Africa or wheat from Australia as for buying machinery from here. The confusion is due to still thinking of sterling as something ultimately redeemable in gold instead of having, so far as the sterling area is concerned, replaced gold. If under the conditions of the old Gold Standard, we had paid out large amounts of gold we should not have whined about the danger of being possibly obliged to supply goods for the return of that same gold if tendered to us. We should have rejoiced at the thought that there was so much purchasing power about to stimulate our productive energies or those of others.

Here again the superiority of sterling over gold has been manifest. The sterling we have issued was issued in proportion to the immense additional effort put out by the Empire and the rest of the sterling area. The sterling that will eventually come back to us will come back in proportion to the production which is asked for and which we are able to supply. The so-called Sterling Debt will prove, in the long run, nothing more than a potential reserve of purchasing power which the war has injected into the countries of the sterling area, and which can exercise an invaluable expansionist effect on the whole area—and, for that matter, indirectly on the world as a whole—when and as that expansion is needed.

It is, I know, argued that if the sterling balances are not a government debt they are in effect a debt on the working community which will for years have to supply immense quantities of goods for no return in the goods we need, and that payment for them in sterling will only aggravate the situation by inflation. As regards inflation that can always be kept down by ordinary Bank of England control over the note issue. The rest of the argument is based on a complete misunderstanding of the actual situation and of its prospects. Goods can normally, as distinguished from the immediate post-war situation, only be supplied for sterling as and when the holders of sterling want the goods and as and when we are in a position to supply them.

India, for instance, is not going to rush on to our market for everything we can produce regardless of the interests of her own economy merely because her Reserve Bank is a large holder of sterling. For one thing that sterling is not all free. A minimum of 40 per cent in the case of India (and of 100 per cent in the case of Iraq and the Colonial Currency Boards) must be retained as reserve against issued currency. For another there are many goods which we might wish to send to India, but which her own manufacturing interests will wish to produce for themselves. The Bombay cotton industry is not likely to allow India to be flooded with British cottons merely because the Reserve Bank could find the sterling to pay for them. What India needs from us, to such extent as we can supply it, is capital equipment. This inevitably takes time, not only to supply, but to instal. The great hydro-electric schemes envisaged in India need much surveying and subsequent masonry work before the power plant is actually installed. In any case I can imagine no more useful demand from our point of view than that for capital plant, requiring not only immediate skilled production, but priming the pump for further orders for extension and repairs.

But India, or rather individuals in India, also urgently want to sell, and to sell things that we want to buy. It is no consolation to the Assam tea planter to be told that "India" could do without the export of tea in view of her sterling surplus. He must sell his tea in countries that want tea like

England or Australia, and is quite content to receive in rupees the sterling acquired by the Indian Reserve Bank. The ultimate liquidation of our sterling obligations may take an almost indefinite time, in the course of which the expansion of mutual trade within the sterling area will have been continually stimulated. The one condition of so mutually advantageous a solution was that we should have done nothing that could in any way impair confidence in sterling.

That is the broad permanent position. There was an immediate situation of no little difficulty arising, not from any defect in sterling arrangements as such, but from the urgent material needs of all the countries concerned and from their sheer physical inability, for the time being at least, to meet those needs in full. It was obvious that we should all have to go outside the sterling area for a large part of our immediate requirements; in India's case, for instance, of capital goods for reconstruction, in ours of foodstuffs and raw materials. On the other hand an immediate breaking up of the dollar and gold pool and an uncontrolled scramble for dollar goods would only have resulted in defeating that object by depreciating sterling and so impairing the value of the main assets of sterling-holding countries. The problem, therefore, was one of securing agreement with other sterling holders, firstly not to throw an excess of sterling on our market before they could supply our more urgent needs, secondly, to limit our purchases outside the sterling area in such a fashion as to enable the most indispensable needs of each to be met without impairing the total value of our sterling assets or postponing unduly the return to free convertibility at a suitable rate. Such agreement was, indeed, indispensable as the sterling area is a purely voluntary association. Unlike Bretton Woods each member of it is free at any time to alter its rate of exchange, as Australia and New Zealand did in 1930—or to drop out altogether. Like the British Commonwealth itself it is held together, not by a paper constitution or a centralised governing body with arbitrary powers, but by mutual interest and mutual confidence.

It had of course, always been obvious that the pool arrangement could not continue indefinitely, and that, in future, sterling countries would be free to spend at least their current

earnings of outside currency on outside purchases. The only question was how much beyond this would it be in the common interest of all of us to purchase outside. That is a matter which should have been settled as between the sterling countries themselves. The same should have applied to the rate at which the post-war convertibility of sterling should have been fixed. The war had, indeed, created a unique opportunity for converting the management of the sterling system into a real partnership in which all the sterling countries could have had a voice. Instead of that we treated the question as entirely between ourselves and the United States. For the sake of the loan we agreed to conditions deliberately designed to break up the sterling system. We pledged ourselves to the far inferior Bretton Woods scheme and to convertibility at the wholly unreal figure at which sterling happened to stand in October 1945. Worse still, going far beyond Bretton Woods, we agreed to throw upon the world market all the sterling earned by all sterling countries from current trade or from the release of balances within a year of Congress endorsement of the loan itself. The story of the disastrous boomerang effect of that pledge upon the loan itself and of the consequent panic suspension of sterling convertibility will be related in a subsequent chapter.

That brings me to one of the most unsatisfactory features of the Washington Loan Agreement. Our negotiations in pursuit of the mistaken tactics of appealing to American sentiment by dwelling on our hardship and sacrifices, put in the very forefront our immense "indebtedness" to the sterling countries. This very naturally gave the Americans, eager to do anything they could to break up the sterling system, a good excuse for insisting that they could not be expected to help us unless our other "creditors" also obliged. Our Government was consequently put in the position of having declared that it "intends to make agreements" for an early settlement with the various sterling countries covering not only the release of balances for free convertibility immediately or over a period of years, but for the "adjustment" of the rest as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.

It would be interesting to know whether our negotiators gave any indication of how such an adjustment was likely to be viewed by the countries concerned or what attention they were likely to pay to our suggestions. I must again point out that we are concerned not with debts between governments, but with assets held by banks or currency boards received in payment for goods and services and standing in reserve against currency actually in circulation. It is therefore not a question of asking for the scaling down of an unpaid debt, but of asking for a refund of what from the holder's point of view are assets acquired at the cost of great sacrifices. It may well be that the terms of our military agreement with India might reasonably be interpreted by mutual consent so as to include a fair share of the cost of the Burma campaign as part of the local defence of India. But what other adjustment is Indian opinion likely to consider itself justified in making? What applies to India applies equally to other independent governments. It would, indeed, appear as if all this question of scaling down has, apart from a generous, but essentially irrelevant gesture by Australia and New Zealand in writing down £20,000,000 and £10,000,000 of their balances, now subsided into the background in view of the "nothing doing" attitude of India and Egypt. All the negotiations that have taken place have, in fact, concentrated on the one question that matters, namely the rate at which sterling might be released as convertible on to the open market to suit the needs of the countries concerned.

The United States Administration has been determined, if it can, to wreck sterling, the only really modern and essentially expansionist monetary system in the world, in order to substitute its own obsolete monetary theories as embodied in the thoroughly restrictive Bretton Woods scheme. Our Government have gone a long way towards helping them to achieve their purpose. All the same I am disposed to think that, whatever the eventual outcome of the present crisis, the essential soundness of sterling will enable it to survive the shocks to which it has been so unnecessarily exposed, and that the sterling system will remain in effective and fruitful operation even if Bretton Woods should only be remembered as one more internationally blessed fiasco.

CHAPTER IV

IMPERIAL PREFERENCE: A POLICY OF EXPANSION

I HAVE already in Chapter II related how the great world depression of 1931 resulted from the attempt to revive the obsolete internationalist economy of the last century, and described in general terms how we successfully emerged from that depression, thanks to the hitherto unrealised strength of sterling and to the development of Imperial Preference. I dealt in the last chapter in more detail with the working of the sterling system. I propose in the present chapter to say something of the past, as well as of the more recent history of Imperial Preference as a policy of economic expansion. It is, indeed, in the name of the catchword of expansion that the United States are trying to force us once more to abandon all attempt to build up a balanced and stable economy at home and in the Empire. The whole American argument is based on the assumption that the only obstacles to expansion are "trade barriers" and that the minimum of "barriers" involves the maximum of expansion. For this assumption there is not the slightest warrant in fact. International trade and expansion are not synonymous terms. External trade may be an essential element in an expanding national production, providing always that it is so controlled as to make its effective contribution to the proper balance of that production. Uncontrolled promiscuous external trade is just as likely as not to be prejudicial to the healthy and stable expansion, not only of individual nations, but of the world as a whole.

The gross figures of a nation's international trade are no measure of its prosperity. Nor is a merely quantitative increase of international trade at large evidence of a corresponding expansion of a balanced world production and consumption. On the contrary, the unregulated and unbalanced flow of international trade on *laisser-faire* principles may, like the unregulated flow of water, prove disastrous to all concerned.

Deluge and drought, boom and slump, over-production side by side with under-consumption, are in each case the natural concomitants of leaving water or trade and investment to find their own level. In a world of indiscriminate promiscuous free trade, based entirely on immediate price competition, nations with immense potentialities, human and material, may never have the opportunity of developing them; those with high standards of living or heavy defence obligations may find their industries destroyed piecemeal. Not only the peoples most directly injured, but the whole world would be the loser by such a state of affairs. Anyhow, whatever policy may or may not be good for the world at large, individual nations are not in the least likely to give up the right to exercise a selective and discriminatory control over their external trade in the interests of their own expansion or of their own economic stability and political security. Any policy which aims at the greater welfare of humanity as a whole through international economic co-operation must take account of that fact.

Nor is there any warrant for the assumption that uncontrolled "automatic" international trade can secure the one great desideratum of our time, namely, stability of employment. On the contrary, the fundamental postulate of the whole nineteenth-century internationalist economy which we are urged to restore was that labour considered, not as an end in itself, but as an instrument of production, must obey the ordinary laws of supply and demand. If the goods of a particular country are undersold by cheaper production elsewhere, the labour engaged in producing them must accept lower wages, or migrate to some other employment or to some other country. But in a world governed by considerations of national strength or social well-being that postulate no longer applies. The attempt to apply it in face of trade union standards and social insurances only leads to the wholesale paralysis of production. That was what nearly happened in the United Kingdom between the two wars as the result of the combined interaction of free imports and an over-valued Gold Standard. We saved ourselves by jettisoning Free Trade and the Gold Standard and by the fact that we were free

from the restrictions of the Most Favoured Nation Clause in inter-Imperial trade and so were able to make mutually beneficial arrangements with other Empire countries.

Elsewhere, more particularly on the European Continent, the nations, tied up to the United States by a Gold Standard supported by lavish American lending, were dragged down into disaster by the American speculative slump which, by withdrawing that support, involved them in a terrible deflation. At one moment there were over six million unemployed in Germany. It may well be argued that the rise of Hitler to power, and all the world tragedy that followed, were the indirect consequence of the misguided re-establishment of the nineteenth-century economic system with its automatic Gold Standard, Most Favoured Nation Clause and uncontrolled investment, in a world in which the laws of *laisser-faire* no longer applied. In the end the nations were, in fact if not in name, driven off the Gold Standard and by every kind of device involving the restriction or control of ordinary international trade, managed to save themselves as best they could. There is an American legend which, by a strange confusion of cause and effect in wishful-thinking minds, to-day attributes the world depression of 1930 to tariffs, quotas, exchange and other restrictions. These restrictions, no doubt, to some extent aggravated the situation. But they no more caused it than the umbrellas in the street cause the rain. Moreover, like the umbrellas, they served their purpose.

As for economic expansion, the most striking recent instances have occurred where a nation occupying a vast territory with a wide range of natural resources, has concentrated upon the complementary and balanced development of those resources and, with that object in view, has insulated itself from outside price competition which could interfere with that development. The essential features of the process have been the same whether in ultra-individualist America or in ultra-socialist Russia.

Even more remarkable in some ways, however, was the economic expansion on similar lines of the first British Empire in the eighteenth century. That expansion was based on the planned and controlled development of our then Colonial

Empire. Of the success of that policy there can be no doubt. Under it Britain built up for herself a position in trade and shipping that converted her from the poor and backward country, described by Macaulay in a striking chapter in his *History*, at the end of the seventeenth century, to the prosperous great power that held its own for a generation against revolutionary and Napoleonic France. Burke notes that the exports to the West Indian and North American Colonies went up from under £500,000 in 1704 to nearly £5,000,000 in 1772, and even these figures hardly do justice to the expansion and, indeed, transformation of our internal economic structure brought about by a purely complementary trade, which added so greatly to the resources at our disposal. Yet the development of the American Colonies themselves was even more amazing. When one considers the limited means of transportation in those days, and then reflects that the population of the Colonies grew in a little over a century to nearly three millions, as large a population relative to that of the Mother Country as the whole white population of all the Dominions to-day, one realises what a powerful engine for the creation of prosperity and population our old imperial economic policy proved itself. Burke truly described our policy, monopolist though it was, as a hot-bed which forced their development far ahead of what would have been achieved by "the slow languid operations of unassisted nature. Nothing in the history of mankind is like their progress".

In a sense the policy was too successful, for the growth of the Colonies in all that constituted a prosperous, self-confident national life outstripped the capacity of our constitution and of our national temper at home to adapt themselves to the new situation. But the policy was not itself the cause of the American Secession, as Burke was never weary of pointing out. What caused the revolution was not the regulation of colonial trade, but the attempt to invade what was regarded as the rightful sphere of the colonial legislatures by the imposition of direct taxation.

The old colonial economic policy was not abandoned after the American Secession, but was, at the beginning of the nineteenth century, gradually modified into a policy of mutual

preference. In 1823 Huskisson opened the colonial trade to foreign countries, subject to the imposition of moderate duties, ranging from 7 per cent to 15 per cent, from which British goods were exempt. As against these, the Colonies enjoyed substantial preferences on their products, such as timber, wheat, sugar and wine. Under that policy Britain's new colonial empire began to make rapid strides. In spite of its much later start, Canada, up to 1845, was fully holding its own in comparison with the United States, and in the period 1815–1840 actually attracted 532,000 British immigrants as compared with 458,000 who went to the United States. It is an interesting speculation to think what might have been the progress of the Empire under Huskisson's policy of practically free trade within the Empire and moderate duties against the outside world, if it had only been given a few more years' trial, and so had received the credit, which so undeservedly went to Free Trade, for the great expansion which followed the Californian and Australian gold discoveries.

In the case of British agriculture the destructive effects of Free Trade were postponed by the fact that wheat prices remained high for a whole generation after the Repeal of the Corn Laws. The "cheap loaf", in fact, had nothing to do with the period of our greatest prosperity, but only came in with the world slump of the later 'seventies. The unfortunate Colonies, on the other hand, had to bear the immediate consequences of the new economic gospel. This was more than a mere incidental hardship inflicted for the sake of an economic theory. It should never be forgotten that Cobden and his associates were deliberately out to break up the Empire, as, indeed, American economic imperialists are to-day, and that Free Trade was, as indeed it still is, a policy of Imperial disintegration. "The Colonial system", so wrote Cobden in 1842, "with all its dazzling appeals to the passions of the people can never be got rid of except by the indirect process of free trade which will gradually and imperceptibly loose the bonds which unite our colonies to us by a mistaken notion of self-interest."

As a matter of fact there was nothing very gradual or imperceptible in the strain imposed on colonial loyalty. The

promising development of the Colonies received a sudden and disastrous check. For Canada the abolition of the Corn Laws was an absolute catastrophe, and for some years the entire financial, agricultural and industrial interests of Canada were paralysed, while the United States took full advantage of the new opening afforded to them. It was in vain that the Governor, Lord Elgin, protested: "All the prosperity of which Canada is robbed is transplanted to the other side of the line, as if to make the Canadian feel more bitterly how much kinder England is to the children who desert her than to those who remain faithful." The only thing that saved the North American Colonies—and all but lost them to the Empire—was a reciprocity treaty with the United States which the British Government arranged in 1854, and which practically put them inside the American fiscal system. The flourishing wine industry of the Cape was allowed to survive for a while, but was killed by the Cobden Treaty with France in 1860. The West Indies lost their sugar preference in 1854. The duties which protected British exports to the Colonies were swept away in 1848.

Gradually the various scattered members of the British Empire recovered from the blow inflicted upon them. But the recovery was cramped and restricted all the time by the small scale on which each Colony, or later Dominion, had to work. Compared with the United States, which, with more than a century's start, had already developed a substantial and well-protected home market, they had no chance of securing either capital for further development, or immigrants to help convert that capital into production and prosperity, or means of transport to convey their products cheaply to the British market. Free Trade, in fact, meant an immense concentration of British creative energy upon building up the United States. Between 1841 and 1866, 2,640,000 British immigrants went to the United States, as compared with only 677,000 who went to Canada. In all some ten millions of our people, and thousands of millions of our capital, went to build up, not the Empire, but the Republic, and their very going enabled the United States to absorb tens of millions more of immigrants of other European nationalities.

Throughout these difficult years opinion in the Colonies adhered consistently to the belief that, sooner or later, Britain would come back to a policy of Empire economic expansion. The colonial point of view was emphasised at the first Colonial Conference of 1887. In 1894 the first Ottawa Conference passed resolutions in favour of inter-Imperial Preference, only the United Kingdom and New South Wales dissenting. In the following year the first reciprocal preferential agreements were made by New Zealand with South Australia and Canada. In 1897 the Empire's point of view was again strongly pressed on the British Government on the occasion of the Diamond Jubilee Conference. More particularly the Empire representatives "unanimously and urgently" recommended the denunciation of the treaties of 1862 and 1865 with Belgium and Germany by which we had pledged ourselves not to allow the Colonies to give preferential terms to the United Kingdom. The treaties were accordingly denounced and the British Empire freed from a foreign stranglehold against any policy of mutual development. It is this same stranglehold which the United States has sought to reimpose by demanding the elimination of Imperial Preference as the price of American financial assistance. Up till then Empire statesmen had always urged Imperial Preference on a reciprocal basis, and had not envisaged the possibility of any progress until the United Kindom was prepared to co-operate. Sir Wilfrid Laurier decided to make a beginning by granting preference unilaterally to British goods, not only as a demonstration of Empire solidarity and in order to give a lead to this country, but also basing himself on the sound economic argument that increased Canadian purchases from the United Kingdom would result in increased purchases by the United Kingdom in Canada. In this his forecast was justified by the result. United Kingdom exports to Canada, which had been falling steadily, increased by 100 per cent (from £5,172,00 to £10,345,000) over the next five years, and to £23,795,000 in 1913, while imports into this country from Canada increased over the same period from £19,218,000 to £22,965,000, and to £30,488,000 in 1913.

Laurier's action and the earnest representations of the Colonial Premiers, both in 1897 and again in 1902, convinced

Joseph Chamberlain that economic co-operation was essential to any effective policy of Empire development and Empire unity. But he failed to carry the country with him and the great issue which he raised was over-laid by our domestic contentions and then by the First World War. On the other hand the Canadian lead was taken up in rapid succession by the other Dominions. New Zealand introduced a preferential tariff in 1903 and our exports to New Zealand increased from £6,905,000 in that year to £10,838,000 in 1913. South Africa followed suit in 1904 with a resultant increase in our exports from £17,819,000 in that year to £22,185,000 in 1913. Australia came into line in 1907 and our exports grew from £24,096,000 in that year to £34,470,00 in 1913. Our imports from these three Dominions showed a corresponding increase from £45,920,000 to £70,640,000 between 1905 and 1913.

After the war, following up a resolution of the Imperial War Conference of 1917, Dominion preferences to British imports were further increased. There was also a considerable development of inter-Empire preference apart from the United Kingdom. A special trade agreement was concluded between Canada and Australia, subsequently extended to include New Zealand. Canada in 1920 negotiated a series of far-reaching preferential arrangements with the various West Indian Colonies, the advantages of which also inured to the United Kingdom. The very substantial Canadian sugar preference was also extended to Fiji, which Colony, as well as Cyprus and Mauritius, also independently established preferential duties in favour of the United Kingdom. The proportion of our exports which went to British countries increased from 37.18 per cent in 1913 to 41.95 per cent in 1928 to the same countries and to 45.3 per cent to the whole post-war Empire.

Meanwhile the first response on the part of the United Kingdom was made in the Budget of 1919 under which a preference of a sixth of the duty was given on existing highly dutiable imports such as tea, coffee, cocoa, sugar, dried fruits and tobacco, and of a third of the duty on the McKenna duties. The effect of all these preferences was considerable. Most striking, indeed, was the effect of the 11 per cent preference

given to the Canadian motor-car industry which became the centre of supply for American type cars for the British and other Empire markets as well as for her own market. With the help of American capital poured into Canada the industry rapidly expanded. The immense contribution which that expansion subsequently enabled Canada to make to the war effort should serve as a reminder that Imperial Preference is a policy not merely of mutual economic benefit but of defence and security. It also indicates that the most effective way of securing American capital for our own post-war reconstruction will be to create the conditions of United Kingdom and Empire expansion by adequate local tariffs supported by adequate Empire Preference.

A considerable extension of these preferences was agreed to by the United Kingdom at the 1923 Economic Conference. The agreement was torn up by Mr. Ramsay MacDonald's Government, but its terms were carried out, so far as preferential remissions of existing duties were concerned, in Mr. Churchill's first budget in 1925. So far as certain new duties were concerned their place was taken by the allocation of £1,000,000 a year to the Empire Marketing Board for the purposes of stimulating the sale of Empire products in this country. A renewed effort by the Dominions at the 1930 Conference to persuade the United Kingdom to reciprocate more effectively was rejected. The obstacle, then as previously, to any extention of Preference was that it involved the imposition of new duties and consequently a departure from the traditional Free Trade policy of this country.

That objection disappeared when the great world depression of 1931 forced this country to adopt a protective tariff. For the principle that where there were duties there should be preference had by then become generally recognised. At the Ottawa Conference of 1932 the principle of mutual preference was embodied in a series of agreements. While these agreements were of a tentative character and the preferential margins established very moderate in their range, it was generally understood that a generation of controversy had been closed and what Lord Baldwin called "the first step" taken in a policy destined to be progressively developed and made

increasingly effective. As a matter of fact these expectations of further advance were not fulfilled in the next seven years. There was even some going back on the spirit, if not in the letter, of the Ottawa agreements in subsequent trade agreements with foreign countries, more particularly with the Argentine and, in 1928, with the United States.

Nevertheless, there can be no doubt as to the positive effects of the Ottawa treaties. The years that followed were years of general recovery and our trade expanded in every direction, foreign as well as Empire. The important fact is the marked rise in the proportion of Empire trade to total trade. Between 1932 and 1937 our exports to foreign countries rose from £200 millions to £269 millions, an increase of 35 per cent. Our exports to British countries, on the other hand, rose from £166 millions to £252 millions, an increase of 52 per cent, bringing our exports to the Empire up to 48.3 per cent of our total export trade. Our export of manufactures rose from 45.9 per cent of the whole in 1931 to 50.94 in 1937 and 52.95 in 1938. The change was even more marked in our imports, very naturally as our exports had already long enjoyed substantial preference from the Dominions. Between 1932 and 1937 our imports from foreign countries rose from £454 millions to £624 millions, an increase of 37 per cent. Our imports from British countries rose from £248 millions to £405 millions, an increase of 64 per cent, bringing Empire imports up from 35.3 per cent to 39.4 per cent of our total imports.

Gross export and import figures are, however, of less importance than the character of these figures as bearing upon our total volume of production. For that purpose the really significant figures are those of our imports of raw materials. Between 1931 and 1937 our imports of food, drink and tobacco increased from £416 millions to £432 millions, i.e., by £16 millions. Our imports of manufactures from £261 millions to £275 millions, i.e., by £14 millions. On the other hand, our imports of raw materials rose from £173 millions to £315 millions, an increase of £142 millions or 82 per cent. Of this increase over £65 millions came from British countries. There could be no more convincing proof of the expansionist effect

of our domestic tariff and of the Ottawa agreements taken in conjunction.

The Ottawa agreements were, however, not confined to bilateral agreements between this country and the several Dominions and India. They included a considerable development of inter-Imperial preference between the Dominions and India (now for the first time included in the preferential system) and between these and various parts of the Colonial Empire. Between 1932 and 1937 the total trade between British countries other than the United Kingdom increased from £70 millions to £157 millions, an increase of 124 per cent.[1]

There can be no doubt, then, as to the enormous contribution the development of inter-Empire trade in the last thirty years, and more particulary since Ottawa, made to the capacity both of this country and of every part of the Empire to sustain the war effort as well as our own capacity to finance that effort. It seems incredible that, instead of being encouraged to develop that policy on bolder and more comprehensive lines, we should have contemplated abandoning or whittling away its effectiveness in pursuit of the will-o'-the-wisp of a revival of the mid-Victorian economic world.

Nor was this marked expansion in any sense achieved at the expense of the rest of the world. On the contrary, if it had not been for the safety-valve of expanding mutual trade opened up by Ottawa and facilitated by the sterling system, we and every other Empire country would have been driven to much more drastic measures to protect our several economic lives, with much greater consequential interference with international trade. As it was, and the figures I have given clearly prove it, the trade of this country and of the whole Empire with the outside world increased substantially after Ottawa.[2] That

[1] For a full account of the development of Empire preferences in the immediate pre-war period see *Imperial Preference*, by Ronald Russell, Empire Economic Union, 5*s*.

[2] The imports of the four Dominions and India rose from £166.9 millions in 1933 to £293 millions in 1937. In the case of the United States the increase was not only actual but formed a larger proportion of their whole external trade. United States imports from British countries increased between 1932 and 1935 from 27.6 to 35 per cent of total imports; exports

it did not do so in the same degree as our Empire trade affords no justification for the assumption that the one was at the expense of the other. There can be little doubt that, if the countries of the European Continent had not been precluded by the Most Favoured Nation Clause from coming to similar agreements among themselves, they could have made a more rapid recovery and have secured their own position with less detriment to world trade. It was, in fact, their helplessness in that direction which opened the way for Dr. Schacht's ingenious policies for utilising the urgent needs of the lesser European countries to establish a German economic stranglehold on them.

Provided we retain our freedom to pursue our own economic policy we and our partners in the British Commonwealth and Empire have before us an unequalled opportunity for an expansion which should ultimately exceed even that of the United States or of Russia in view of the greater advantages with which we start both in the extent and diversity of our resources and in the organised ability and enterprise at our disposal. That expansion need not follow the American principle of unregulated capitalist individualism and unrestricted free trade within a single tariff. Still less is it likely to follow the rigid state collectivism of the Soviet system. It would naturally be far more decentralised, affording scope in each part for such measure of local protection as may be desirable in order to create a full and balanced development of local resources, as well as for such free choice between socialist and individualist methods as may suit the needs or political outlook of each community. Such a decentralisation, indeed, is essential, as this war has shown, in order to afford a corresponding decentralisation of defensive strength. We can be only too grateful for what Dominion tariffs did to save the situation in the late war by the production of munitions for which they had laid the foundation. And we are no less bound in duty to the common interest to give effective protection to our own agriculture even against Empire competition. What is essential

to British countries from 40.2 to 42.6 of total exports. This did not prevent Mr. Sumner Welles, then Under Secretary of State, from declaring, in May 1943, that "the whole history of British Empire Preferences is a history of economic aggression."

is that the preferential system of the future should provide a co-ordination and concentration of the surplus purchasing and investing power of each part upon the development of the rest. And it can do so without prejudice to each part also developing its trade relations outside the Empire. The question is one, not of exclusion, but of priorities, of planned concentration of purpose, not of unco-ordinated diffusion and dissipation of economic energy.

It is on these lines that we shall best be able, not only to build up the maximum expansion of total production by the fullest mutual development of our common heritage of human and material resources, but to do so on the foundation of the maximum volume of stable employment in each part. In place of committing ourselves, bound hand and foot, to the wildly shifting fluctuations of a world-wide system of promiscuous trade and investment, we can work on the principle of each part of the Empire retaining in its own hands full and unfettered control over its external trade, investment and monetary policy, subject only to such arrangements for mutual co-operation as it may from time to time find it useful to make within the Empire or with other nations.

The case for Imperial Preference has been stated in this chapter almost entirely on economic lines. But it is essentially also a policy of mutual co-operation for defence. To strengthen each other's economic power by our purchases is to strengthen each other's population, productive power and revenue; in other words, each other's power to co-operate for the maintenance of the peace, not only of the Commonwealth and Empire, but of the World. More than that: it is the correct expression in the economic field of the peculiar constitutional relationship on which our Commonwealth is based. A federation in which sovereign powers are transferred from the units to a central government naturally expresses that more rigid unity through a common federal tariff. In a Commonwealth based on free co-operation each member enjoys the unfettered control of its economic as of its defensive and foreign policy. But each member is no less entitled, as of right, to extend to its partners such co-operation as it wishes to give in the economic as in the political field. No other nation

is entitled to complain of our co-operation in the one field any more than in the other on the ground of "discrimination". What possible right has anyone to forbid the members of a nation group wich saved human liberty by standing together in arms to work together in peace for their own recovery? The question to-day is, in fact, whether the British Empire and Commonwealth is, in any true sense of the word, to be allowed to continue and make its contribution, as an equal among equals in total strength, and as a leader in experience and vision, with the great power groups now emerging. To that question, transcending all purely economic issues, there can surely be only one answer.

CHAPTER V

THE MOST FAVOURED NATION CLAUSE

In the last two chapters I have described the remarkable recovery from the world depression of 1931 which was made by this country and by the whole British Commonwealth and Empire as the result of the conjoint effect of the sterling system and of Empire Preference. More particularly I emphasised the point that both these policies were essentially policies of economic expansion, in contrast to the inevitably restrictive effects of any monetary policy based on a limited total of international money outside national control, of fixed exchange rates and of cut-throat economic international competition disregarding all considerations of balanced development and stable employment. The natural question that arises is whether these policies might not have a wider application. In other words why could the nations of Europe not have saved themselves by similar methods?

Our own success was no doubt largely due to the fact that it was based on the free co-operation of a group of countries between whom the essential economic and political conditions of co-operation already existed. The economic links—of trade, of shipping, of finance—binding the British Empire together were already very strong. Behind them stood a common speech and a common way of thinking, as well as a definite political goodwill and a common ideal of Empire influencing, in varying degrees, all who took part in our economic negotiations. At the same time the group of countries concerned was large enough in the volume and variety of their productive resources, in the consuming capacity of their markets and in their available financial and organising equipment, to afford a basis not only for the maximum efficiency of production, but also for the widest range of complementary exchange and for the monetary system which such exchange requires.

It is indeed, one of the apparent paradoxes of modern economic development that while the whole conception and

structure of the modern state imply a policy of economic nationalism, the technical developments of modern production all demand so wide a range of varied natural products, so large a market to secure the maximum efficiency of mass production, so powerful a financial basis, that few of the existing countries into which the world is divided constitute economic units adequate to modern conditions. The solution of the paradox lies, not in flying in the face of the whole tendency of modern thought in order to restore a nineteenth-century internationalism, nor in acquiescing in the stifling of progress by existing national boundaries. It lies in groups large enough to satisfy the technical requirements of modern production, and yet also sufficiently held together by some common ideal, some permanent co-operative purpose, to enlist the forces of economic nationalism on their behalf.

These conditions have, in fact, already been secured for themselves to the fullest extent by such great units as the United States and the Soviet Union. The United States, starting with the advantage of a long-established federal constitution and of internal Free Trade behind a common tariff, i.e. 100 per cent inter-state preference, enjoy at the same time natural resources so ample and varied and so vast a consumers' market as to constitute a unit far transcending in economic dynamic power any other, and, at the moment, all the rest added together. The strong economic nationalism which insisted on a vigorous protectionist policy during the growing period of American industry has been enormously intensified by success. Only to-day America is so confident of holding her own in open price competition even in her home market, and so intoxicated with the prospect of economic world domination, that she has become the protagonist of the very internationalist policy in defiance of which she achieved her present greatness. More than that, she is determined to use her economic power, by hook or by crook, to prevent others following her example and building up economic systems comparable to her own. It is to the object of keeping the world, and more particularly the British Empire, broken up into small and economically defenceless units, that American economic policy has been consistently directed for over a decade.

If the United States aims, consciously or instinctively, at domination through economic internationalism, the Soviet Union aims at a similar result through the spread of totalitarianism. The methods of totalitarianism are, of course, completely effective in suppressing internationalism. Where no private enterprise is tolerated there is no room, in fact, for discussion as to the level of tariffs or the nature of quotas or whether a particular sale involves a subsidy or a particular purchase discrimination. The omnipotent state buys what it wants for whatever reasons, economic or political, seem good to it, and sells what it wants to sell at whatever price suits its major purposes. If the nations are to be precluded from building up effective economic groups by free co-operation on liberal lines many of them may well, in the end, be more disposed to hand themselves over to the relative security of totalitarian control than to remain at the mercy of unregulated cut-throat international competition. The American veto on free economic co-operation between nations is far more calculated to drive the world into totalitarian policies than to restore the capitalist internationalism of the last century. It is in America's own long-term interest, as well as in our own and that of Europe, that we should defeat that veto whether as exercised against Imperial Preference or against any European economic or political co-operative system.

The instrument on which the United States relies for the exercise of that veto is the so-called Most Favoured Nation Clause in commercial treaties. This clause was originally a provision for the protection of individual traders against discriminatory treatment when actually visiting or residing in foreign countries. A stipulation for most favoured nations treatment in respect of customs duties was included in the Anglo Danish Treaty of 1661 (incidentally still in force). But this was an isolated case, and it was not until the nineteenth century, under the influence of internationalist economic theories, that it came to be looked upon as a potent instrument for the progressive lowering of tariffs all round and for the acceleration of the ideal of universal free trade. As long, indeed, as statesmen shared that ideal and regarded the reduction of tariffs, including their own tariffs, as something

intrinsically desirable, the clause undoubtedly had the anticipated effect. A whole net-work of treaties, of which the most notable and far-reaching was the Anglo-French Treaty of 1860, the so-called Cobden Treaty, rapidly covered Europe and contributed to the progressive lowering of tariffs which continued during the greater part of the next twenty years.

Then came the great depression of the later seventies to which I have already referred. Protection everywhere became an urgent necessity—except in the United Kingdom where we preferred to sacrifice our agriculture to our theoretical convictions, and where our industry was still sufficiently supreme to disdain help. Before long the increasing success of protection made it a permanent policy based on reasoned conviction. Under these conditions the Most Favoured Nation Clause ceased to have the effect it had had in the preceding decades. France in 1892 practically jettisoned it, by confining its operation to her general tariff and excluding it from any special or conventional tariff resulting from particular treaty arrangements. The rest of Europe, led by Germany, retained the clause for the sake of its obvious conveniences both in administration and negotiation. But once the reduction of a duty was regarded, not as in any case desirable, but as a sacrifice made in order to secure some counter-concession, the Most Favoured Nation Clause, so far from tending to lead to the reduction of tariffs, tended to keep them up. Each country that enjoyed Most Favoured Nation rights could always hope, by sitting back, to secure, without making any concession itself, any advantages that might result from negotiations between two other countries. On the other hand, if it opened negotiations itself it had to make concessions, not to one nation only but to practically all, in order to receive only an indeterminate share of the concessions granted in return.

Under these circumstances tariff negotiations centred, not so much upon general tariff reductions as upon particular concessions in respect of items in which the negotiating countries were in a specially favourable situation. This policy, in essence a policy of reciprocity rather than of general equal treatment, was facilitated by a highly ingenious use of detailed tariff classification. Even the Cobden Treaty

of 1860 was, in fact, largely secured by a preferential discrimination, based on alcoholic content, in favour of French as against Portuguese and Colonial wines. The *reductio ad absurdum* of this policy of preferential discrimination clothed in Most Favoured Nation terms was the notorious clause in a German-Swiss Treaty which made special concessions to dairy produce from cows habitually grazing at an altitude of over 1,000 metres!

At the height of the Free Trade movement it was even regarded as undesirable that any nation should receive more than Most Favoured Nation treatment in its own colonies, or give more in return. In 1864 the United Kingdom definitely pledged itself to that policy in respect of its own Empire in treaties with the North German Zollverein and with Belgium. France, it is true, pursued the opposite policy, and it was largely in order to prevent the French policy spreading that the Congo Free State was set up under international auspices, and that the greater part of tropical Africa was by the Berlin and Brussels Acts declared a free trade zone, subsequently modified into a zone of economic non-discrimination. The United States, when they acquired an overseas Empire after the American–Spanish war of 1898, promptly proceeded to include their new territories within their high tariff or, where nominal independence was conceded, to establish preferential relations with them.

The British self-governing colonies (now Dominions) had, as I have already related, always resented the abandonment of the system of inter-Imperial preferential trade under which they had flourished before the establishment of Free Trade in the United Kingdom. The demand for preference with the Mother Country was voiced insistently at Imperial Conferences from 1887 to 1907. But it was not until 1898 that Lord Salisbury's Government denounced the German and Belgian treaties which prevented Canada from carrying out Sir Wilfrid Laurier's policy of an unreciprocated preference to the United Kingdom. The full significance of this decision, however, only became apparent to the world at large after the Ottawa Conference of 1932. It asserted the right, in principle, of a group of fiscally autonomous communities to disregard the Most Favoured Nation Clause, in the pursuit of a policy of mutual economic co-operation. That right could not in

logic, or with economic justification, be indefinitely denied to any other group that might wish to constitute itself.

In the First World War the Most Favoured Nation Clause, where not swept aside by actual hostilities, was, in fact, rendered nugatory by all the elaborate rationing devices evolved in pursuit of the economic blockade of the Central Powers. In the mood of internationalist reaction which was in fashion immediately after the War and which governed the Peace Treaties, no account was taken of the extent to which the drift towards economic nationalism, which had been going on for a generation before the War, had been reinforced by developments during the War, both in individual European countries and in the relation between Europe and the outside world. Everywhere the nations set to work to repair the shattered economic fabric of Europe on the basis of the Most Favoured Nation Clause, and presently on the international Gold Standard, on the assumption that they were restoring the world of 1870.

Unfortunately it was a wholly different world. Europe was left exhausted, impoverished and heavily in debt. In an age in which the technique of modern mass production demanded large markets she was more split up than ever before. On the other hand there were the United States: enjoying all the advantages of large scale production for a home market equal in purchasing power to all the markets of Europe added together; able to export their surplus, both of agricultural products and of manufactures, at low prices; no longer a debtor but a creditor on a colossal scale, and at the same time unprepared to take payment in European goods. Other oversea countries, in a lesser degree, enjoyed a similar change in their position relative to Europe, and had become more self-contained as well as more effective competitors. Russia, under a system of state monopoly, was in a position to dump her produce on the European market at prices bearing no relation to costs of production.

In these circumstances it would have been of the greatest importance to the recovery of Europe, as, indeed, it would be today, if the countries of that Continent had been free to co-operate in reducing to a minimum their purchases from the

outside world, and more particularly from the United States, by reasonably high tariffs, while at the same time encouraging their mutual trade to the utmost by reciprocal tariff concessions. Such a policy would have stimulated the recovery and expansion of European production, and might even have made possible the retention of the Gold Standard by keeping the bulk of Europe's gold holdings in circulation within that Continent. Precluded by the Most Favoured Nation Clause from such an expansionist policy of mutual co-operation the European countries had no alternative left but to keep their individual tariffs high enough to meet external competition at large, regardless of the restrictive effect of such a policy upon the general recovery of Europe and, indeed, upon her trade with the outside world. Even so, the European countries still continued to buy from outside more than they could afford. When the balancing factor of American investment and travel was withdrawn by the American slump the crash became inevitable.

The Most Favoured Nation Clause can thus be seen to have been one of the main contributory causes of the world depression. When the depression came it stood no less effectively in the way of any concerted effort on the part of the European nations to defend their economic existence. The United Kingdom, indeed, now found itself more fortunately placed. It discovered that it possessed in sterling a monetary system which could work quite happily independently of gold. It also now at last realised that within the Empire it was free to build up for itself a system of reciprocal trade at its own price level. The European countries had no such way of escape. Tied individually to the Gold Standard, and terrified of again falling victims to an uncontrolled inflation, they could not see their way to any effective common monetary policy capable of preventing the further disastrous fall in prices. The Most Favoured Nation Clause remained an obstacle to any common tariff policy for mutual support.

Where, indeed, the attempt was made by certain countries, as by Holland and Belgium by the Ouchy Convention of 1932, to lower their tariffs to each other by mutual agreement and to include in the arrangement other countries which might subscribe to the same policy, this was promptly vetoed as

conflicting with the Most Favoured Nation principle. This country, under the short-sighted reactionary influences still dominant at the Board of Trade, was among the first to object to two neighbouring nations in Europe doing what the nations of the Empire were at that very moment doing at Ottawa. A more far-sighted view of our own interest, both in our trade with Europe, and even more in vindicating the Ottawa policy in the eyes of the world, might have put us in a much stronger position to-day to resist the American attack on Empire Preference.

Headed off by the Most Favoured Nation Clause from any direct policy of co-operation on the tariff plane the European countries presently found ways of turning the various emergency restrictions improvised under the strain of urgent crisis, such as quotas and exchange controls, to the purpose of developing reciprocal measures on a considerable scale. Any form of quotas, at any rate any form of quotas involving definite allocation among individual countries, is, of course, contrary to a strict application of the Most Favoured Nation Clause principle, the essence of which is unlimited competition provided it is on equal terms. But so far from contenting themselves with such mere technical violation of the principle as the imposition of quotas inevitably involved, the various countries freely used quotas, as well as the granting or withholding of financial facilities, as bargaining counters on a reciprocal basis. It might in fact be said of most of the international commercial agreements of the pre-war years—certainly of those concluded by the United Kingdom—that while they nominally maintained the Most Favoured Nation Clause, the substantive and effective element in them mainly consisted in those quota and payment provisions which were essentially reciprocal in character, restricted to the negotiating parties, and thus in effect in contravention of the Most Favoured Nation principle.

No country, indeed, carried out this policy of utilising every device of quotas, exchange restrictions, bilateral clearings and multiple currencies with greater ingenuity or to greater lengths than Germany under the astute direction of Dr. Schacht. However unscrupulously the policy was used to

secure for Germany, not only a livelihood for herself, but a stranglehold over her economic dependants, it did set up some sort of a balanced and reciprocal economic system for Central and Eastern Europe, and was at least an improvement on the unmitigated effects of the Most Favoured Nation Clause. Unless, indeed, that clause can be swept aside or effectively modified—and this means the outright rejection by Europe of the American policy and of the Geneva proposals—it is by no means impossible that some Russian Schacht will carry out his policy by even cruder and more drastic methods. The network of Russian economic treaties with her satellite neighbours may be only a foretaste of more far-reaching developments.

If Europe is ever to recover from its present plight it is essential that the European nations, or as many of them as are willing to take a lead in coming together, should be free to co-operate effectively in the economic as well as in the political field. Any other policy not only means economic stagnation, but means that a balkanised and impoverished Europe will become the intrigue-ground and eventually the battle-ground of the Great Powers. To secure this freedom it is essential that the European nations should be freed from the veto on co-operation imposed by the Most Favoured Nation Clause. That veto has never been imposed against a customs union. The United States, indeed, in the treaty concluded with the Argentine in October, 1941, undertook not to invoke the Most Favoured Nation Clause against any preferences which the Argentine might accord to a contiguous country "with a view to the ultimate formation of a customs union."[1] There is no logic or sense whatever in the view that a customs union is a legitimate economic development and of no injury to its neighbours, but that a partial customs union—for that is what a preferential system amounts to—is a menace to the economic interests of other countries, or even, as American statesmen have suggested, to the peace of the world. Why should the peaceful co-operation of the nations of Europe, or for that matter of the British Empire, be vetoed

[1] Any such indefinite undertaking, or any advance towards a customs union by progressive preferential measures, is, however, forbidden under Article 42 of the Geneva Draft Report. See Ch. XI.

simply because the differences of their various circumstances preclude a complete customs union?

The problem is one that can be solved in more than one way. One solution might be simply to get rid of the clause altogether or to secure an agreed reversion to that interpretation of it to which the United States adhered up to 1922, viz. that the concessions given in a trade treaty should only be extended to third parties who give similar or broadly equivalent concessions in return. This does not, in practice, differ greatly from the French solution of a "double-decker" tariff of which only the "general" tariff is equally available to all while the "conventional" tariff is only extended to those with whom satisfactory special arrangements are concluded. Another and, perhaps, more acceptable solution, however, might lie in an extension of the principle of regional associations arising out of geographical contiguity or historical relationships which has already been accepted in a great number of cases. The Scandinavian countries, for instance, have by long-standing tradition always excluded benefits which they concede to one another from the application of the Most Favoured Nation Clause. The Soviet Union has similarly excluded from its purview any states which once belonged to the Russian Empire as well as adjacent countries in Asia. Spain and Portugal not only reserve their mutual relations, but also the relations of each of them with their former South American colonies. Various South American Republics have inserted provisions in treaties with extra-American states safeguarding their freedom to co-operate with other South American states. As I mentioned above, the United States has, in fact, accepted that contention camouflaged by the somewhat shallow device of a customs union in ultimate contemplation.

A solution on these lines might be the easiest to secure. For it would only mean an extension appropriate to modern conditions of a widely recognised principle. It would still exclude purely fortuitous and temporary preferences given to one nation over another by competitive bargaining, and would base the right to mutual preference on permanent factors tending also to co-operation for all other purposes. The right

to inter-European tariff preference would naturally go with rail, river and air transport conventions and greatly facilitate the establishment of a European monetary system. In other words Europe, including the colonies of the continental European countries, could thus secure all the advantages which the British Empire has been able to enjoy by the right to Empire Preference and by the development of sterling. As in the British Commonwealth all the advantages of co-operation over the whole field of policy could be secured without infringing the sovereign independence of any member. What is more, a solution on these lines would enable this country to develop special economic relations with Europe without prejudice to the development of Imperial Preference. Preferential systems are not, like customs unions, mutually exclusive, but can to a large extent overlap or interlock. Canada's participation in Empire preferential schemes has not precluded her developing especially close economic relations with the United States.

The broad conclusion which emerges from the survey covered by the preceding chapters is that the system of promiscuous cut-throat international competition among nations forbidden to co-operate by the Most Favoured Nation Clause and bound to a relatively rigid and in any case limited external monetary system, is restrictive and not expansionist, essentially destructive to stability and calculated to result from time to time in disastrous depressions. Nor is there anything in the facts which I have given to justify the belief that the only alternative is a system of closely associated totalitarian economies.

The true answer seems to lie in a system of free co-operation among nations *as nations*. This need not preclude the actual conduct of trade and industry being carried on by individual enterprise. On the contrary it would, I believe, facilitate it by eliminating the temptation to resort to direct state management. But it does mean that each nation should be free, first of all, to exercise unfettered control of its own economic and monetary policy from the point of view of the national interest, taking into account every relevant factor whether of the balanced development of its resources, the stability of employment, the steadiness of the price level, social welfare or national

defence. It should, secondly, be no less free to broaden the base and balance of its development, increase stability and stimulate expansion, by mutual arrangement with other nations, more particularly with those in whose welfare and strength it is most closely interested, whether for reasons of sentiment, of common political ideals or geographical contiguity. It should, lastly, also be free to broaden yet further its balance of development by trade with nations or nation groups outside. Such a system would be soundly based, expansionist at every stage and at the same time provided with the internal bulkheads required to protect it from disastrous world-wide fluctuations.

Nor does the fact that the basis of the system is the nation and the national interest mean that it will necessarily involve narrow autarkic, ultra-protectionist and restrictive policies. On the contrary, as the preceding chapters have shown, these have largely been the result of the restrictive effect of an external monetary system which has accentuated the fear of adverse balances, and of a Most Favoured Nation Clause which has forbidden straightforward preferential tariff arrangements and driven the nations to the most cumbrous and harassing devices in order to secure a measure of reciprocity. Group or regional economic co-operation is, in fact, the workable middle course between the chaos of unregulated economic promiscuity and the tyranny of totalitarianism. The more effective the co-operation for economic expansion within the group the larger also, in the sequel, will be the opportunities for trade with the outside world and the readiness to facilitate such trade. The more the British Empire or Europe develop their resources by a policy of free co-operation the greater will be their eventual trade with the United States. Nor under a system of freedom is there anything to preclude special economic arrangements between the British Empire and the United States, so long as the latter recognises the British Empire's right to control its own economic destiny in its own way. It is a system which should appeal to Americans themselves once they have recovered from their new-found obsession with an out-of-date internationalism and from the intoxication of the belief that it is their mission to dominate the world's economy.

CHAPTER VI

THE AMERICAN OFFENSIVE, 1933–1945

THREE main conclusions emerge from the survey of the inter-war years contained in the preceding chapters. The first is that the attempt to restore the nineteenth-century inter-nationalist economy based on the Gold Standard and the Most Favoured Nation Clause broke down with disastrous results to all concerned and, not least, to the United States. The second is that by far the most successful recovery, and the one involving the very minimum of dislocation of international trade, was that achieved by the British Commonwealth thanks to the fact that it was free, so far as inter-Imperial trade was concerned, from the restrictive effect of the Most Favoured Nation Clause and was also free, thanks to the discovery of Sterling, to adopt an expansionist monetary policy suited to the needs of trade and production. Thirdly, that other nations, and more particularly those of the European Continent, precluded from the exercise of both these freedoms, were driven more and more into extreme and increasingly totalitarian or quasi-totalitarian methods for the control of their economy, and that the best hope of a stable, expanding and liberal world economy lies in developing the British system of regional or group economies. How comes it then that the United States, profoundly interested as they should be in a liberal world economy, have for years pursued a determined and consistent policy aimed at the enforcement of the Most Favoured Nation Clause and, above all, at breaking up the liberal British Commonwealth and Sterling System?

The answer lies partly in the economic development of the United States in the last generation, but even more in the American intellectual atmosphere created by American conditions and the American way of life. All nations are in greater or less degree the prisoners of their own intellectual environment. The fewer their contacts with the outside world, whether

due to deliberately enforced seclusion, as in the case of Russia, or due to distance from the rest of the world and absorption in their own affairs, as in the case of China in the past, the more effectively are the prison gates closed upon their minds. Of no nation is this more true than of the American, above all in the economic sphere. The long isolation of the American economy from the impact of external economic forces and its immense internal expansion have delayed by half a century and more those effects of international competition and of the conscious emergence of the working class as the dominant element in politics which have inevitably forced the rest of the world more and more along the path of planned economies.

Meanwhile the volume and efficiency of American production have reached a pitch at which it has little to fear from competition at home or abroad, but is more concerned with the problem of exporting surplus production in order to stabilise employment at home. The dominating position of American finance, especially if gold is to remain the ultimate basis of all values, lends encouragement to visions of an almost unlimited expansion of exports. The ordinary American's outlook to-day tends, in fact, to be very much that of the ordinary Englishman of 1847, a vision of economic world conquest, presumed to be for the benefit of the world itself, but above all aimed at strengthening and stabilising America's present predominance. What that outlook ignores is the complete change both in actual world economic conditions and still more in the intellectual and political outlook of the rest of the world. The England of 1847 embarked upon its policy of economic internationalism on the full flood tide of *laisser faire* thought everywhere. The American of to-day confidently assumes as self-evident economic axioms propositions which the rest of the world has long ago discarded in practice, even if statesmen and economists still pay lip service to them as part of the conventional insincerity of international conferences.

There is another similarity between the ruling American outlook of to-day and that of the Liberal capitalist middle class that led the fight for economic internationalism in England a hundred years ago. It is a natural convention of party warfare, especially in Anglo-Saxon countries, to claim

a higher morality and a greater interest in the peace of the world for one's own party and its ideology, and to regard one's opponents as endangering the peace of the world for sordid motives of class interest. The English Socialist of to-day feels this about capitalism and capitalists, and sees the world millennium in the spread of Socialism, forgetful of the fact that this was exactly what capitalism felt and said about aristocratic landlordism and hoped for in the prospective "bagman's paradise" of world free trade. The American New Dealer of to-day is acutely conscious of the fact that the Republican Party's high tariffs were a contributory factor in the world depression, and associates that policy with the political isolationism which would have left Europe, and perhaps the world, at the mercy of Nazi aggression. Equally naturally he tends to think that this was the case in other countries—that the world depression was, in fact, caused by high tariffs and restrictions everywhere. What he fails to realise is that it was the inadequacy of the protection afforded by their tariffs under Most Favoured Nation Clause conditions and, in particular, the absence of any protection in the United Kingdom, which contributed quite as much or even more than the American tariff to the disaster of an unbalanced world economy, and that the restrictions which he most blames for the depression were imposed after it had come about and did, in fact, cure it.

That explains the curious blend of almost religious puritanical fervour on behalf of economic internationalism with a shrewd determination to advance the national interest which has characterised statesmen like Mr. Cordell Hull, Mr. Sumner Welles, Mr. Wallace, or Mr. Clayton just as it characterised John Bright and Richard Cobden a century ago. These are all men to whom, with the late President Roosevelt, the world, and we in particular, are deeply indebted for their courageous advocacy of a policy of intervention and for their help in the hour of our greatest danger. That makes it all the more difficult, though none the less necessary, to oppose them when they try to force upon us and upon others an economic policy which, if adopted, can only end in economic chaos and facilitate the spread of totalitarianism.

Our idealist friends are not, however, the real driving and deciding force in this business. That, as Lord Keynes discovered when he began talking about our sacrifices for the common cause, is supplied by the "tough guys" in Congress and outside. It is supplied by the big industrial interests clamouring for an unlimited outlet to provide for their immense surplus capacity and to keep down their overhead costs.[1] It is supplied by big business eager to finance exports and secure world-wide control. Our idealist friends may admit that their policy will only work if America, now a creditor country, becomes, on balance, an importer and not an exporter. So far as the tough guys are concerned, that is all theoretical boloney. They are for exports and more exports and yet more exports. They want to supply the needs of every country, not only in goods, but in air and sea transport and finance—exports visible and invisible. And there are other tough guys, more concerned with the home market, who will see to it in Congress that any reductions in the American tariff are not going to spoil their business. They secured from President Truman a pledge since implemented that any American trade treaty will contain an escape clause providing that any concessions it contains may be suspended if found injurious to American producing interests. As for the balance of payments, the financiers can see to keeping that balance going for the present—and never mind the theorists who point to the inevitable eventual crash.

What even the statesmen of the New Deal fail to recognise is that their policy, if it is to be accepted by the world, can only continue to work without a crash on the basis of an eventual enormous increase of American imports, which must of necessity increasingly compete with American production. As with us in the past the tendency would be not only towards a less balanced internal economy and a greater dependence on external interference with that economy, but also towards an increasing subordination of the interests of producers to

[1] American statisticians have calculated that a pre-war export of 10 per cent of automobiles produced kept down home prices by over 20 per cent and that the same applied in even greater measure to the export of machine tools, agricultural machinery, and, above all, films.

those of financiers and merchants. Meanwhile it is to this passion for export, not to the necessity of an import surplus, that they appeal when they want to put their policy across at home. In October 1944 President Roosevelt said: "I intend to find jobs for 60,000,000 Americans by trebling our exports." A rosy prospect for us who have been told that, merely in order to exist, we must increase our total exports by 75 per cent, which means that we must double our exports of manufactures. Similarly Mr. Vinson, the Secretary of the American Treasury, commended the Loan Agreement in a broadcast "as opening the way to the removal of all government restrictions on purchases from America". America is to sell and sell and all will come out right for everybody, somehow. That is the policy in a nutshell.

There is a further element in the situation which cannot be ignored. The severance between America and Britain has never, happily for both of us and for the world, been complete. For nearly a century after the Revolution the United States were still in large measure within the orbit of the British world economy. In actual fact, and still more in political psychology the British Empire has had more continuous contacts with the United States, even on the American Continent itself, and has bulked larger on the American horizon than any other Power. There has consequently always entered into their mutual relations, especially on the American side, something of the same attitude that I have referred to as customary in the field of party politics, i.e. of regarding the other party with particular suspicion as the special example of the policy of which one disapproves. One has to keep this in mind to account, for instance, for such a statement as that made in a speech by Mr. Sumner Welles, when Under-Secretary of State in 1943, that: "the whole history of British Empire Preference is a history of economic aggression." That the most moderate and liberal economic system in the world should be picked out for such a description may suggest an echo of the well-known protest of the wolf against the lamb's aggression upon his water rights. But it would be a mistake to regard it as mere insincere hyperbole. Fantastic as it may seem to us, American opinion has fastened upon British economic policy as the typical

example of economic imperialism, and it is to the destruction of the system of Empire Preference that the policy of the United States has been most consistently and systematically directed. It is for this purpose, even more than in the hope of combating totalitarianism elsewhere, that the Most Favoured Nation Clause was made the Ark of the Covenant of American policy.

The first American attempt to reverse the trend of world development was made, in the year after Ottawa, at the London International Economic Conference of 1933. This was held, most appropriately, in a geological museum, and all the pious sentiments of an out-of-date economic internationalism were duly expressed by statesmen who knew that they could not possibly be put into effect. Any hope even of some sort of formal agreement was wrecked by the attitude of continental gold countries demanding a prior settlement of the monetary position and by President Roosevelt's unexpected and drastic action in meeting his own domestic necessities by reducing the dollar to 50 per cent of its previous gold value—not a very encouraging precedent, incidentally, for the permanence of the Bretton Woods scheme.

For a time it would seem as if continental totalitarian methods bulked even more largely in the eyes of the State Department than the iniquity of Empire Preference. At any rate in 1935 Germany's use of exchange manipulation to secure the control of South-Eastern Europe was countered by her exclusion from Most Favoured Nation rights in the American market and by the imposition of a penal tariff. With this instrument in hand against a Power which was increasingly threatening the peace of Europe the situation became favourable for an approach to the British Government in order to secure at any rate a partial reversal of Empire Preference. The nondescript coalition which then presided over our affairs had never regarded Ottawa as much more than an expedient necessitated by the world crisis and by the insistence of the Dominions. With an old-fashioned Liberal Free Trader at the Board of Trade it had, so far from treating Ottawa as the first step in a policy of planned expansion, already whittled away some of its provisions in its treaties with Denmark and the

Argentine, and was only too ready to appease the United States by whittling away some more.

Negotiations were delayed for some time, but were hastened by the growing crisis in Europe. In November 1938, a few weeks after Munich, an Anglo-American Trade Agreement was signed. This still further cut down and circumscribed Empire Preference. It committed us in the case of purchases by a government monopoly to be influenced solely by such price and other considerations as would be taken into account by a private trader, in other words not to give preference to Empire goods or to conclude a bargain on reciprocal terms with an Empire country. Over and above that the Agreement was notable for the whole-hearted acceptance by the British Government of the principle of the most Favoured Nation Clause. A report of the Economic Committee of the League of Nations stated hopefully: "The new attitude towards the Most Favoured Nation Clause taken up by the United Kingdom and by the States will make it increasingly difficult for countries practising the method of exclusive mutual concessions to persist in that policy". It is, to say the least of it, doubtful whether the effect was not, in fact, precisely the opposite, namely a hardening of Germany's determination to acquire her *Lebensraum* by more drastic and aggressive economic and military measures.

The outbreak of war was regarded by the State Department as affording a fresh opportunity for furthering its policy. Mr. Sumner Welles' diplomatic mission to the European capitals would seem to have kept that issue well to the forefront as influencing the direction of American sympathy. A memorandum of his to M. Paul Reynaud of March 9th, 1940, defined "the base of the economic foreign policy of the United States" as, in effect, getting rid of all bilateralism or discriminatory arrangements in favour of the implementation of the Most Favoured Nation Clause, and of excessive tariffs, quantitative regulating and exchange controls in favour of "the multilateral functioning of the trade process". In August 1941 President Roosevelt and Mr. Churchill met at sea off the coast of Newfoundland. Of the amiable generalities embodied in the statement issued after their discussions—since grandiloquently

designated the Atlantic Charter—only one was the object of any serious discussion.[1] That was the one in which the American negotiators worked with all their might to commit Mr. Churchill to a formula which would involve the abandonment of Imperial Preference. This was too much for the British Cabinet, and Mr. Churchill insisted on inserting into Clause IV which stipulated for "the enjoyment by all States, great or small, victor or vanquished, of access on equal terms to the trade and to the raw materials of the world", of the *caveat* "with due respect to their existing obligations". These words were, as Mr. Churchill explained to the House of Commons on April 21st, 1944:

> "limiting words . . . inserted for the express purpose of retaining in the House of Commons and in the Dominion Parliaments the fullest possible rights and principles over the question of Imperial Preference."

The direct attack on Imperial Preference was thus repulsed, but only, so far as the public was concerned, by a vague and unsatisfactory reference to existing obligations which might be interpreted to mean either the permanent obligations of mutual co-operation which exist between the nations or the Commonwealth or merely the obligations of the current Ottawa Agreements. A clear-cut and public declaration that Imperial Preference was not a matter which we were prepared to discuss would, no doubt, have been much better. But at that moment, with America not yet in the war, Mr. Churchill possibly did the best that could be done.

Meanwhile the State Department was endeavouring by alternate efforts at persuasion and economic coercion to secure Japan's abandonment of her policy of the economic absorption of China. The commercial treaty between the two countries was denounced in July 1939, and in July 1941 President Roosevelt issued an Executive Order freezing Japanese assets in the United States and thus bringing about a virtual cessation of trade. These measures were no doubt influenced by general disapproval of Japanese aggression, but it is interesting

[1] *See* Appendix A.

to note how consistently Mr. Cordell Hull kept his main economic objective in view throughout. Thus we find him saying in October 1941 to the Japanese Ambassador "that he had been fighting such measures as those taken at Ottawa and would like to have Japan join with the United States in fighting for liberal economic policies". On November 18th he was again pointing out to the Japanese Ambassador that he was even then engaged in efforts to induce the British Empire to reduce its Empire Preference. The American Government's determination to secure the enforcement of the Most Favoured Nation principle was again stressed in Mr. Cordell Hull's note of November 26th which finally decided the Japanese to launch their surprise attack.

America's entry into the war was followed by the negotiations which were completed on February 23rd, 1942, by the signature of the Mutual Aid (Lend-Lease) Agreement.[1] This was based on a recognition of the fact that, to quote the preamble, "the defence of the United Kingdom against aggression is vital to the defence of the United States". In spite of the subsequent narrow interpretation of the defence of the United States as coming to an end the moment hostilities ceased, this was a broad and generous acceptance of the principle that we were engaged all out on a common venture for our common civilisation. But it is not true that it "took the dollar sign" out of our co-operation, as President Roosevelt suggested. That sign was very much put back by Mr. Cordell Hull in Article VII of the Agreement which was as follows:

> "In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11th, 1941, the terms and conditions thereof shall be such as not to burden commerce between the the two countries, but to promote mutually advantageous economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate

[1] *See* Appendix B.

international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12th, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

"At an early convenient date, conversations shall be begun between the two Governments, with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments."

This time the attempt to commit this country and the British Empire to mortgage its future for the sake of immediate help by pledges essentially irrelevant to the issue of the war—unless, indeed, we were engaged in a life and death struggle to defend the Most Favoured Nation Clause—took even more definite shape than in the Atlantic Charter. Once again Mr. Churchill secured in private correspondence an assurance from President Roosevelt "that we were no more committed to the abolition of Imperial Preference than the American Government were committed to the abolition of their high protective tariffs". (Mr. Churchill in the House of Commons, April 1st, 1944.) But this private assurance, only made public two years later, had little influence with the State Department which has ever since regarded us as committed at least to the reduction, if not the elimination, of Imperial Preference and to pressing the Most Favoured Nation Clause upon the rest of the world. Whether the text of Article VII really commits us to anything may be open to question. For nearly fifty years we have in all our trade treaties excluded inter-Empire trade from the purview of international trade, and it is at least arguable that we are entitled to continue to do so. Again it is even more arguable whether the objectives of the expansion

of production and employment, which are put in front of that of the exchange and consumption of goods, are reconcilable with the elimination of discriminatory treatment or of the effective control of imports. But there is no doubt what the American State Department intended by the Article, and it does not appear that the British negotiators made any attempt to argue the case, though by then we were in a far stronger position than at the time of the Atlantic Charter by the very fact that the United States were in the war.

So far, indeed, from arguing the case for our established policy or, at least, being content to wait until the United States should, in pursuance of the final sentence of Article VII, bring forward concrete proposals, we seem to have thought it obligatory on ourselves to take the lead to show how eager we were to win the approval of the State Department. The ever fertile and ingenious brain of the late Lord Keynes had hatched out a scheme for financing an expanding world trade by using the surpluses of creditor nations to enable debtor nations to meet their requirements through an international fund which, like a bank, would, in effect, give overdrafts on the strength of its deposits. Whether such a scheme, or any internationally managed scheme, would ever have worked may be open to doubt. Lord Keynes' scheme had at any rate the merit of being expansionist in its tendency and the fund of $21,172 million which he proposed was reasonably substantial. So Lord Keynes went across to sell his scheme to the Americans who promptly produced, through Mr. White of the American Treasury, their counter-proposals based on the narrowest Gold Standard lines. How much of Lord Keynes' ideas survived the process of negotiation will be discussed when I come to deal with the Bretton Woods scheme. Enough for the moment to say that Mr. Morgenthau described the latter as "the fruition of the American Treasury's gold policy".

Meanwhile in the winter of 1942–43 a British commercial delegation of officials was equally busy in Washington trotting out a scheme for a multilateral commercial union based on a variety of fancy proposals for working out reduction of tariffs and preferences without the slightest idea of what reductions the United Stations might be prepared to offer themselves,

still less of what any other country could or would offer after the war, or how a totalitarian state like Russia could be fitted into the scheme at all. The Dominion and Indian Governments were to some extent kept in touch with these very academic proceedings, and shepherded in the desired direction, mainly through their officials. But nobody seems at any stage to have consulted British industry or agriculture or the producers in the Empire whose interests were so vitally concerned. As with Lord Keynes' happy thoughts on finance, the British suggestions eventually emerged transmogrified into the fantastic American proposals to which the British Government first pledged its full support in connection with the Loan Agreement and which it has more recently endorsed in the Geneva Draft Report and the Tariff Agreement. To borrow Mr. Morgenthau's expression they represent the fruition of the "State Department's theories of how world trade should be reshaped".

The underlying conception not only of Bretton Woods and of these commercial proposals, but also of the proposals about nutrition emerging from the Hot Springs Conference and certain discussions on commodities and buffer stocks and, not least, of the economic and social side of the United Nations Organisation, is that of a restoration of the internationalist world economy as dreamt of, and partially realised, in the period 1845–75. But it is to be an internationalist economy in a new sense; not an economy functioning automatically entirely outside all national control, but one enforced by international organisations to which the nations are to hand over control of their individual welfare. That such a system could ever work in practice, whatever the economic policy which it attempted to enforce, is more than problematical. For the moment our main concern is the actual policy to which we committed ourselves by the conjoint effect of our acceptance of the Bretton Woods scheme, of the principles of the American Commercial Proposals, of the Geneva Draft Report and of conditions attached to the Loan Agreement.

CHAPTER VII

THE BRETTON WOODS MONETARY SCHEME

AN INTEGRAL part of the American policy has been, in one form or another, to restore the gold standard, i.e. a world monetary system outside national control—or, rather, in so far as America holds 85 per cent of the world's stocks of monetary gold, under American control. I have already referred to Lord Keynes' original proposals for a monetary scheme based on the issue of an international currency called "bancor", backed by $21,172 millions of deposits, which would enable debtor nations to use the surpluses of creditor nations in order to finance their own purchases by what was, in effect, an exchange of overdraft facilities. Like sterling, which in some respects it resembled, his system was essentially expansionist, and calculated at any rate to reduce dependence on gold. Naturally it evoked a strong reaction from the United States Treasury which promptly produced the so-called White Scheme, a purely gold standard banking scheme on the narrowest lines. Experts on both sides were duly convened and after months of discussion produced, in April 1944, a Joint Statement (cmd 6519) embodying a "compromise" which on most vital points was a victory for the American point of view. This, with a few modifications, was adopted by a conference of representatives of forty-four nations which met for three weeks in July 1944, at Bretton Woods, New Hampshire. After some final minor amendments it was approved by the United States Senate on July 19th, 1945. The plan covers two separate schemes; one for an International Monetary Fund and the second for an International Bank for Reconstruction and Development (see Appendix D).

In broad outline the monetary scheme consists of a Fund subscribed by all the members by quotas apportioned to their estimated needs at the Bretton Woods Conference. The total subscription, if all the fifty-one nations represented ultimately

joined, was to have been \$8,800 millions or £2,200 millions. The largest single quota was that of the United States with \$2,750 millions; the United Kingdom came next with \$1,300 millions; The British Empire as a whole was to subscribe \$2,350 millions; the South and Central American countries over \$500 millions.[1] Russia was down for \$1,200 millions, but has not joined. The actual total is thus \$7,600 millions. The Fund has an elected Board of Governors, but its real powers are concentrated in its Executive Directors and Managing Director. The Fund is a juridical person and immune everywhere from taxation, expropriation or judicial process of any kind. The main advantage conferred by the Fund is the right of members to buy other members' currencies from the Fund with their own currency, eventually up to the total amount of their quota. For the rest they abandon the free control of their monetary policy and subject it to the discretion of the Fund in carrying out the purposes for which it has been constituted. Members are, however, free to withdraw at any time from the Fund and forgo its advantages. They would then have to redeem in gold or convertible currencies such amount of their own currency as the Fund might be holding in excess of their quota, a provision which might not be too easy to fulfil. In any case other members would then be obliged not to co-operate with them in "transactions contrary to the agreement or to the purposes of the Fund", a form of financial boycott which might be very embarrassing.

The purposes for which the Fund is to be set up, and by which it "shall be guided in all its decisions", are set out under six headings in Article I. The third of these defines the

[1] Under Article XII, 5, voting is to be by simple majority. Each member is to have 250 votes, plus one for each \$100,000 of its quota. That would give the United States 27,750 votes; South and Central America 9,250; the British Empire 25,000. Each \$400,000 worth of net sales of its currency by a member gives it an additional vote; each \$400,000 of other currencies bought from the fund reduces its voting power by one vote. These additions or reductions are in each case deemed to be limited to the quota of the member involved. But it means that the United States' voting power might easily rise to 34,625, while ours might be appreciably reduced. Here, as in the charges for holding other currencies, all the emphasis is in favour of the creditor against the debtor.

immediate monetary purposes as follows: "To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation." The other headings are, in effect, devoted to saying that the object of this monetary policy is to bring about the main economic policy of promiscuous indiscriminate trade to which the United States Administration is wedded. I shall deal more fully with this main object when I come, in the next chapter, to the American Commercial Proposals. For the moment I shall confine myself to the more immediate monetary purposes.

It will be noted that the only stability aimed at is that of exchange.[1] There is no reference whatever to the infinitely more important question of stability of the price level. The former is an undoubted convenience in international trade, but not an essential. The latter, on the other hand, is a vital factor in social and industrial welfare. Large, rapid, unforeseen and uncontrollable fluctuations in the price level are more responsible for social and political upheavals than almost any other cause, as was pointed out by the Macmillan Commission (see p. 47). The deflation resulting from the American policy in 1931 contributed directly to the discontent in Germany which brought Hitler to power, and so to all the disasters which have befallen the world since.

The two objects are not necessarily incompatible. Under a managed currency like sterling both stability of the price level and parity of exchange over a wide area can be successfully combined. But that is not the case when the supply of exchangeable money is determined by a given quantity of gold or dollars liable to fortuitous or arbitrary increases or reductions bearing no relation to the needs of any particular country or of the world as a whole. That was what happened in 1875 and in 1931, and is, in effect, happening again under the Bretton Woods scheme. So far, however, as the Fund is concerned it obviously regards the world economic crisis as

[1] This in our case is permanently fixed at the rate ($4.03 to the £) prevailing at the end of October 1945 (Article XX 4 (a)). How far that rate bears any relation to the real relative value of currencies during and after the years of transition ahead of us, it is impossible to conjecture.

outside its purview, and does not look beyond its limited task of preserving exchange parity subject to relaxations whose inadequacy will be discussed later.

These relaxations, after the first 10 per cent unilateral devaluation, are to be controlled by the Fund with a view to avoiding competitive exchange depreciations. Here again the underlying assumption seems to be that the world troubles in the inter-war years were largely caused by deliberate currency depreciation when it was, in fact, the disastrous internal conditions resulting from the gold standard which compelled devaluation—in our case only after the most desperate financial and political efforts to avoid such a "disaster". As a device for improving an external trade position, as distinguished from rectifying an internal price situation, devaluation is a very clumsy instrument. It raises the price, not only of competitive imports which we may wish to reduce, but equally of the essential imports which we must have. It stimulates the exports we do not wish to encourage as well as those which we do wish to encourage. Even as regards the latter its effects are only beneficial when the resulting reduction in price (as measured in other currencies) leads to a more than corresponding increase in the volume of sales. Where that is not the case there is actual direct loss from devaluation. That remarkable American official study, *The United States in the World Economy*, after pointing out that United States imports have not been to any marked extent affected by changes in prices, but have been directly dependent on the trend of productive activity, goes on:

> "This characteristic of American import trade is particularly unfortunate in times of depression and pressure on the balance of payments of foreign countries with the United States. It means that a fall in foreign prices under such conditions does not facilitate, but only aggravates the problem of adjustment."

The first remedy for an unsatisfactory balance of payments is not devaluation, but a selective control of imports, both as to their nature and as to their source, or even in the

selective subsidising of certain kinds of exports (e.g. shipping or aviation). If our recovery after 1931 was so "outstanding" as that same study points out (see pp. 40–45) it was not because we devalued in relation to gold, but because we devalued to a price level that suited our needs and simultaneously with a large part of the world whose needs were equally suited, while, at the same time, the adoption of a domestic tariff and the conclusion of the Ottawa Agreements exercised a vigorous expansionist effect upon the productive activity of all concerned.

The one point on which all British parties were agreed after 1931 was that we should not again be tied up to the gold standard. Anxious questioners in Parliament about the negotiations at Bretton Woods were invariably put off by assurances that we were in no way committed, and that there would be the fullest opportunity for debate before any decision was taken. In June 1945 Mr. Bevin assured the House of Commons that neither he nor his Party would in any circumstances again be anchored, directly or indirectly, to gold. When Bretton Woods was subsequently rushed through all that Government spokesmen could say was that this was not really the gold standard. It is, no doubt, avowedly only a gold exchange standard, and there is no actual obligation on a member of the Fund to fix its internal price level in direct relation to its reserve of gold or currency convertible into gold. But this is, in effect, only possible so long as it holds such a reserve. Once the reserve runs out, as ours is now rapidly doing, it must either deflate or abandon parity. With any alteration of parity narrowly limited, unless a member is prepared to take the invidious and difficult step of breaking away from the Fund altogether, the clear object of the scheme is to enforce, by indirect pressure, the same deflation that the old gold standard system enforced more immediately. In any case a monetary system in which all values are ultimately measured in gold and whose sole purpose is to maintain the convertibility of national currencies into gold at a fixed parity, without regard to stability of price levels or the expansion of production, is a gold standard. Mr. Morgenthau left no doubt on that point when he declared

that Bretton Woods represented "the fruition of the American Treasury's gold policy."[1]

Apart from its effect upon national price levels the most serious aspect of the attempt prematurely to force convertibility at a fixed rate, coupled with "non-discrimination", is that in a difficult and uncertain world situation it exercises a directly restrictive effect upon trade and production. In its anxiety to be sure of possessing enough gold or convertible currency like dollars every country is tempted to restrict imports in order to have enough gold, either for its reserve or for its purchases from convertible currency countries. The point was well put by an eminent American financial authority Mr. Réné Leon, in his book *Bretton Woods*:

> "Under conditions of extreme readjustment, social, political and economic, can expansion of trade and also balance be achieved on the basis of fixed exchanges? My answer is, No. . . . To harness world economy to static exchanges at such a time and under such conditions is to stifle action and obstruct reaction, because it is by their very fluctuations that the exchanges create those correctives which make for balance in international trade

[1] A close scrutiny of the various clauses of the scheme reveals everywhere the tendency to force gold convertibility. Under Article VIII 4 (ii) a member, whose currency has not actually been declared scarce, can insist on his holdings of another member's currency being bought back for gold or his own currency. In other words, America can insist on payment in gold or dollars, and the same would apply to any other country whose currency we happened to be short of. As under Article VII 1 (ii) the Fund, in order to prevent a currency becoming scarce, can borrow that currency or buy it for gold, the Fund need never be short of dollars, and Article VIII 4 (ii) above will always apply. Again, under Article IV 4 (b), members are obliged, if they buy the currencies of other countries, to do so at the official parity, but are dispensed from that obligation if they buy and sell gold freely at the international price. This means, in effect, that we may be liable to buy up at par large quantities of weak currencies unless we establish complete gold convertibility. The United States already on gold, will be under no such obligation to support other countries' weak currencies. Under Article II 7 (ii) of the Bank for Reconstruction calls on members have to be paid in gold or dollars or " in the currency required to discharge the obligations of the Bank for the purpose for which the call is made". As most of the loans are likely to be made to provide dollars that means that the calls on us, up to a possible maximum of some £260 millions, will have to be found in gold or dollars.

relations. . . . Fixed exchanges are the conduits through which economic ills will flow and spread across national boundaries. They will shackle the weak economies to the strong, and debilitate the strong without strengthening the weak. The sum of all economic activities will be a gravitation downwards towards a generally lower standard of life all round . . ."

Mr. Leon's prediction has been amply fulfilled in the general restriction of trade which the "dollar famine" has progressively intensified and which played so large a part in the disastrous consequences of enforced sterling convertibility.

The subordination of national currency policy to gold is, in one respect, even more complete than under the old gold standard. That was at any rate a voluntary association with which individual nations could refix their relation as it suited them or even break away altogether. The tow-line was in their hands; they could let it out 25 per cent, as Australia did before the crash came; or they could let go altogether, as we did for the time being after the 1931 crash. Under Bretton Woods we can let out the tow-line by 10 per cent if that is enough for our purpose—not 10 per cent at a time, but 10 per cent once and for all, so far as our own independent decision is concerned, unless we leave the Fund altogether. Is that ever likely to be enough in a real crisis? Can anyone suggest that a 10 per cent change in the gold value of the pound, or 20 per cent, or anything short of immediate complete casting adrift, would have met our situation in 1931? We did in the end tie on again at some 40 per cent below, and even that figure was probably not low enough. Under Bretton Woods, after one 10 per cent unilateral devaluation, we can never let the tow-rope out again ourselves. That will be decided for us, in the case of the next 10 per cent, within 72 hours, and in the case of any further devaluation at such time as the Fund may judge fit.[1] It is an

[1] In coming to a decision, the Fund has to be "satisfied that the change is necessary to correct a fundamental disequilibrium, and, if so satisfied, shall not object on the grounds that that disequilibrium is due to the domestic, social or political policies of the member concerned" (Article IV 5 (f)). There is no definition here of what constitutes a fundamental disequilibrium. But the waiver of interest provisions in the Financial

interesting reflection on the incoherence of the Government's policy that, having as its first measure on taking office, nationalised the Bank of England, it promptly proceeded to hand over the control of our monetary policy to an international capitalist body, from which there is no appeal, located in the United States, dominated by American gold and banking interests, and bound by its Articles to maintain a course which for us may mean sheer disaster.[1]

There is, no doubt, the provision of Article VII that a country's currency may be declared scarce by the Fund, in which case members are entitled to take discriminatory measures against its trade. But a particular country may be seriously short of dollars, or visualise an impending shortage, long before a general dollar shortage has set in. And in any case the provision means that dollars have actually to run out before a remedy is permitted—the stable door must not be shut before the horse has been removed. Nor is the sudden arbitrary imposition of special duties against a single powerful country always going to be politically easy to carry out. In view, moreover, of the fact that the Fund can always borrow dollars from the United States, the latter will naturally be readier to lend them than to see discrimination applied against its exports. As one more example of the many official miscalculations on which the Government's acceptance of the American loan conditions was based it is worth while recalling that Mr. Dalton, commending the Bretton Woods scheme to Parliament on December 12th, 1945, laid great stress on the "first importance" of Article VII. He explained that it afforded a practically automatic safeguard against a heavy excess of exports by any particular country by authorising

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Agreement suggest that it would be based on some comparison with the situation over a period of years and might bear little relation to the urgent needs of the moment or of the immediate future. In any case, the purposes of the Fund by which the administrators are bound would lead them to look askance at any request that they could suspect—as they would naturally tend to do—of containing an element of competitive depreciation.

[1] "The essential attribute of a sovereign state is the power at any time to alter the value of its currency for any reason deemed to be in the national interest." *Report of the Macmillan Committee*, §256.

discriminatory trade restrictions against that country. In fact, in spite of an American export surplus running at the rate of £3,000 millions a year and of a paralysing dollar famine, no action has been taken by the Fund on its own initiative under Section 1 of Article VII to declare the dollar a scarce currency.[1] Nor apparently had we or any of the countries hit by the dollar famine the courage to risk offending the United States by an application to the Fund for authority to discriminate against American imports. The whole Bretton Woods scheme has since been officially declared to be only a fair weather scheme, not intended to deal with a desperate crisis like the present, but only to regulate fluctuations in exchange pressures of normal range. So far from contributing to the expansion of trade the premature fixed exchanges enforced by it have only had the effect of restricting world trade and aggravating unbalance and instability. The whole tendency, in fact, of the scheme, and of the commercial policy of which it is a part, is not to create a balanced economy, but to force American exports and redress the adverse balance by American lending. That, in the end, can only lead to another crash and widespread repudiation.

If the elasticity afforded by the devaluation conditions of the Fund is obviously insufficient to avert or meet any serious crisis, what of the elasticity afforded by the right to purchase other currencies from the Fund itself? It is here, again, that the inadequacy of the Fund to meet any really serious situation is manifest. The total subscriptions or quotas making up the Fund were fixed at $8,800 million, say £2,200 million. At present, with Russia abstaining, the total is only £1,900 millions, and may be still less in the event of other abstentions. Of this $2,750 millions, or £685 millions, of America's quota will be in gold or dollars; of the rest probably not less than £1,100 millions will be in more or less inconvertible currencies. The whole arrangement is on so small a scale—far smaller than the sterling system which is to be broken up for its sake—

[1] M. Camille Gutt, the chairman of the Fund, in fact declared on Sept. 17th, 1947, that from the Fund's point of view the dollar was not a scarce currency as the Fund has plenty of dollars. Such a restricted interpretation of the very general terms of Section 1 of Article VII seems on the face of it highly questionable. But no one has ventured to question it.

that, unlike sterling or even the Keynes scheme, it is far more likely to be an instrument of restriction than of expansion.

The same complete inadequacy to serve any serious purpose appears in the provisions which enable a member to buy another member's currency to meet its needs on current account. This it may do up to 25 per cent of its quota in any one period of twelve months, and up to a total maximum of 100 per cent additional to its own original quota. This, in our case, means that we can correct a disequilibrium in our balance of payments up to £81.25 millions in a twelvemonth or up to a total of £325 millions over the whole period of our membership. We have, in fact, begun to do so. For that accommodation we shall have to pay interest on the following scale: for less than the £81.25 millions, one half per cent for nine months after the first three, with an increase of one half per cent for each subsequent year. The interest is to rise a further half per cent for each bracket of 25 per cent of our quota, and when it has reached 5 per cent the Fund may impose such charge as it thinks appropriate. Unlike the Keynes scheme, the whole onus of reducing indebtedness to the Fund is thrown on the debtor—yet another restrictive feature. To pledge ourselves to break up the sterling system and to deprive ourselves of Imperial Preference and of all other opportunities of fruitful reciprocal bargaining for this meagre accommodation was surely the height of folly.

Not included in Article I dealing with the purposes of the Fund, but dealt with in Article VIII, which prescribes the general obligations of members, is a section forbidding members to engage in or allow "any discriminatory currency arrangements or multiple currency practices except as authorised by this Agreement or approved by the Fund". The provision against discriminatory currency arrangements was, of course, directly aimed against the sterling system. It was, however, realised at the Bretton Woods Conference that we could not possibly afford to do without the help of sterling arrangements for at least some years to come. Accordingly Article XIV provided for the continuance of exchange restrictions subject to members concerned having continuous regard to the purposes of the Fund. After three years members

were to consult the Fund annually as to their further retention. After five years the Fund might make representations and might finally declare the member ineligible to use the resources of the Fund and expel him from membership. The delay this allowed might have afforded time for sterling to become freely convertible at a parity fixed in accordance with the then world situation and reasonably likely to be maintained. In that event sterling might have continued to function as a complement to the Bretton Woods gold standard, and its substantial volume and great elasticity might have served to correct the restrictive effect of Bretton Woods. There might, in effect, have come about a new "bimetallic" system with sterling compensating and steadying the vagaries of gold and of the American economy.

That, however, was the last thing that American financial interests wished to see come about. Accordingly the thumbscrew was put on over the loan negotiations and the transitional period of five years reduced to one year. Under Article VII of the Financial Agreement we rashly consented "to complete arrangements as early as practicable and in any case not later than one year after the effective date of this agreement", except in "exceptional cases" to make all the sterling receipts of all sterling countries from current transactions (other than those arising from United Kingdom military expenditure up to the end of 1948) freely available for transactions in any currency area without discrimination. We further pledged ourselves under Article X to make an early settlement with the countries concerned to cover previously accumulated sterling balances which were to be divided into three categories: those to be released at once; those to be released by instalments over a period of years beginning in 1951; "balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement". Mr. Vinson, Secretary of the United States Treasury, in his broadcast of January 24th, 1946, triumphantly described the Agreement as "abolishing the sterling area within a year". The sequel to Mr. Vinson's prophecy will be told in a subsequent chapter. Meanwhile it

is sufficient to say that we were forced within six weeks of the coming into effect of the convertibility conditions to repudiate them. Sterling is once again temporarily inconvertible as it was in 1931, at least in relation to the dollar area. Outside of the dollar area, including most of Central and South America, it remains wholly or, in some cases, partially convertible, and only our own immediate inability to supply the goods that are needed, above all coal, prevents it once again, as after 1931, dominating the situation or at least fully holding its own with the dollar. Such, indeed, is my own conviction of the inherent strength and excellence of the sterling system, and of the weakness and inadequacy of the Bretton Woods scheme, that I am inclined to believe that, after a few years of confusion and waste of resources, sterling may re-emerge, crippled but alive, when the Bretton Woods Scheme will, by its inherent inadequacy, have fallen back into a secondary position.

The whole monetary scheme is, in fact, a scheme for restoring in its narrowest form an exchange system fixed to gold—in effect to the dollar. It is a scheme in which there is no inducement whatever to surplus countries to increase their imports or reduce their exports, or to deficit countries to meet prospective trouble in advance by import or exchange restrictions. The whole emphasis is on the encouragement of export surpluses to be rectified—temporarily—by international lending; on the very system, in fact, which broke down so disastrously in 1931. At that time, however, the nations were free to extricate themselves as best they each could in the field both of trade and of monetary policy. Now they are to be free in neither field, and, as regards monetary policy, under the control of a Fund shaped in advance and definitely instructed to serve the purposes which in 1931 brought the world to disaster.

The International Bank for Reconstruction and Development was to have had a total capital of \$9,100 million, if Russia joined, or \$7,900 million without Russia, or very nearly the same total as the Monetary Fund and subscribed in very much the same proportions, the chief difference being that the United States subscribes \$3,175 millions to the Bank as against \$2,750 to the Fund. Its purpose is to provide

guarantees or participate in loans for the purposes indicated in its title. For countries with very small capital resources it may afford a means of access to American capital, more cumbrous probably than that which they will have anyhow on the open market. The purpose for which the Bank is, in fact, prepared to make loans are pretty narrowly limited. It has made it clear that it has no intention of helping to tide over the general difficulties with which we and Europe are faced, or to finance food supplies, however essential to production, but only to finance purchases of equipment or materials directly entering into production. "We are not in the stop-gap business," was how Mr. McCloy, President of the Bank, recently summed up its policy. The same principle governs the operations of the Export and Import Bank.

So far as we are concerned it does not look as if we can possibly get as much out of the International Bank as we put in, especially if, after our initial 20 per cent call—of which only two per cent need be gold—subsequent calls are likely, in fact, to have to be paid in gold or dollars (see note on p. 99). In any case there is nothing in it that could even remotely compensate us for the break up or weakening of the sterling system. The only notable provision is that contained in Article III 5(a) forbidding the Bank to impose as a condition that the proceeds of a loan shall be spent in the territories of a particular member. That particular form of discrimination is one which the United States apply rigidly to their loans at present, even to the extent of further insisting on carriage by American ships. It was, significantly enough, not mentioned in the American Commercial Proposals, and is, in fact, specifically defined in the Geneva Draft Report as a "commercial consideration", i.e. as not a form of discrimination.

CHAPTER VIII

THE AMERICAN COMMERCIAL PROPOSALS

The climax of the American policy of setting the Humpty Dumpty of mid-nineteenth-century economics on his wall again was reached in the "Proposals for Consideration by an International Conference on Trade and Employment", published as a White Paper (cmd 6709). With those proposals the British Government on December 6th, 1945—the day of the signature of the Financial Agreement—expressed "their full agreement on all important points" and pledged their "best endeavours" to bring discussions on them "to a successful conclusion". A more completely out of date and in many respects fantastically unreal document it would be difficult to imagine, or, indeed, a more one-sided one if any interests were to be taken into account other than the immediate short-term interest of American exporters and financiers. It is a humiliating thought that British official "experts" should have participated at various stages in the preparation of this futile document and that our Government should thus, in some degree, share responsibility for its initiation as well as for the difficulties in which we have since been entangled.

The original proposals have since undergone considerable modification, more particularly as the result of four months' discussion by the representatives of eighteen nations at Geneva. But in spite of this and of some sixty-five reservations made to the revised text by various stages, the draft charter, which is being submitted to a wider conference at Havana at this moment, still retains the main structure of the original document and professes to aim at the same objectives. It is, indeed, these objectives that the United States Administration still seems determined to enforce by every kind of pressure or inducement at its disposal. Besides, it was to these proposals in their original and crudest form that the British Government

pledged its support. It will be more convenient, therefore, and give a better picture of the sequence of events, if in the present chapter I confine myself in the main to the proposals actually endorsed by both sides on the occasion of the loan negotiations. Their subsequent development and the course of the tariff negotiations at Geneva will be dealt with in Chapter XI. In any case the broad criticism of the proposals set out in the present chapter still holds good, for the expanded and revised edition.

It is characteristic of the spirit in which the proposals were initially drafted by the British and American representatives concerned that the question of their effect upon employment in the countries affected was left out of consideration altogether. It was only as the result of Australian representations that it was felt necessary to insert some reference to employment. Internal evidence, indeed, suggests that between the original preamble declaring the need for international economic co-operation and its elaboration in an International Trade Organisation whose purpose was to enforce the American objective of uncontrolled price competition, the "Proposals concerning Employment" were only spatchcocked in after the rest of the document had been drafted in full detail. In any case the section headed "Proposals concerning Employment" was in no way linked up with the rest of the document. It contained nowhere any consideration of the bearing of unlimited competition on the problem, apart from a suggestion in Chapter IIIB that commitments to reduce tariffs might contain an escape clause allowing of temporary action to prevent sudden and widespread injury to producers, and a similar suggestion in Chapter V in connection with commodity arrangements for industrial products.

Nor, in fact, did this section, in spite of its title, contain any actual proposals for promoting employment or preventing unemployment. All it did was to begin by laying down the unexceptionable principle that "high and stable levels of employment are a necessary condition for an enlarged volume of trade". There was no suggestion how these were to be attained, but each of the signatory nations was to pledge itself:

> "to take action to achieve and maintain full employment within its own jurisdiction, through measures appropriate to its political and economic institutions".

At this point the American negotiators must have seen the red light. These appropriate measures might well—almost certainly would—extend to the regulation and planning of external as well as of internal economic activities. So another pledge was inserted immediately after the first in the following terms:

> "No nation will seek to maintain employment through measures which are likely to create unemployment in other countries or which are incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiences of production."

The last undertaking is in definite contradiction to the opening declaration that the volume of trade must *depend* on high and stable levels of employment. It does not even attempt to argue that the maximum volume of unregulated international trade on a purely price basis of competition (for this is what presumably is meant by comparative efficiency of production) will produce the maximum volume of employment, still less the maximum stability of employment. The argument would, indeed, be difficult to sustain. It simply lays down that national employment policies must be subordinate to the exigencies of promiscuous international trade and fit in where they can. That, so far as the original American proposals are concerned, was all that there was to be said about employment.

But the question of employment—in other words the question of our national existence—cannot be dismissed like that. It must be faced by any nation, and above all by ourselves, whose conditions of employment and existence are so closely dependent on the character as well as on the volume of our external trade. I need not apologise, therefore, for asking my readers to consider somewhat more closely the

inter-relation of employment policy with trade policy, before dealing with a series of detailed proposals which, in fact, treat employment policy as irrelevant or, at least, completely subordinate to trade policy.

Before doing so I wish to clear up a potent source of confusion arising from what I might call a terminological accident. The term employer is so habitually used for what the French language much more correctly calls the *entrepreneur* or undertaker (a term once in use among ourselves) that there is an unconscious tendency to regard him as the source of employment and not as, what he really is, the organiser of opportunities for employment. Even in our legislation we use the phrase a "self-employed person" for a person who gets his employment direct from the public. Much, indeed, of the vogue of nationalisation arises from the idea that if the all-powerful state steps into the shoes of the individual "employer" it can thereby provide stable employment in any industry. The answer to all that was contained in a White Paper on Employment (cmd 6527) issued in 1944 by the Coalition Government. This proceeded from the elementary and really obvious fact that it is expenditure, whether by the purchaser of goods or by the investor, that decides employment. Above all the purchaser, for, except in the very limited case of public works, investment is naturally directed to the production of the goods for which there is a customers' demand.

To put the matter in its most elementary form. If there is a demand for boots there will be employment in the boot-making industry somewhere and capital will go into that industry somewhere. If the demand is for British-made boots, whether because of their quality or their price or because state policy discourages the demand for foreign boots at home or secures special encouragement for British boots abroad, then it is British bootmakers who will be employed and capital, British or it may be foreign, will go to the setting up of British boot factories. This is not necessarily an argument for forbidding or even discouraging the British purchaser from buying foreign boots. It may be that by some trade agreement the purchase of foreign boots here is compensated by the sale of

British boots abroad, or by the sale abroad of some export of greater importance to our national employment, or by provision aimed at securing some other import essential to our productive activities. But it is essential to remember that in the absence of any regulation or control a small difference in money price to the consumer may divert employment and create direct and indirect loss out of all proportion to the immediate saving to the consumer.

To put the matter again in its simplest form, the immediate saving to consumers, by buying foreign boots, of one pound on the quantity of boots representing, say, five pounds of bootmakers' wages, involves a direct loss of five pounds to the bootmaker. Indirectly employment in the community gains one pound from the increased spending power of those who have bought the cheaper foreign boots; it loses the displaced British bootmakers' five pounds of spending power and may have to subtract spending power from others to keep him in unemployment. As the White Paper points out "even a minor decline in employment may rapidly gather momentum and take on the proportions of a major depression". Incidentally there is also the effect on the exchange situation.

These things do not in themselves constitute a case for a narrow protectionist or autarkic policy, but still less are they an argument for a policy of *laisser-faire* and free imports. They are an argument for a definite national employment policy covering the field of external trade as well as that of internal trade or of state employment. The point was skated over, I fear, in the White Paper to which I have referred. But the Trade Union Council's Report on the subject, issued in October 1944, summed up the matter correctly:

> "This problem (of employment) neither can nor should be solved only by attempts to expand our export trade and, least of all, by methods of cut-throat competition. On the contrary, it demands the public regulation and planning of our foreign trade as a whole."

To label all measures of regulation and planning indiscriminately as "barriers to trade" or "discrimination" and to

describe a policy of unregulated promiscuous trade as a policy of expansion and employment is simply begging the question. Expansion, which includes both employment and trade (not only international but domestic), is the result of the application of human energy and skill to natural resources. Under conditions of mere price competition the skill in a particular country may never be developed and the resources left unused. In such cases the intervention of the state to insulate national energies from outside competition may be an essential condition of expansion, even if it involves some initial loss or inconvenience to consumers. It is by such a policy of protective insulation that the immense expansion of the United States was created, helped by a vast influx of both money and human capital from outside. In the case of Germany an expansion hardly less remarkable was accompanied by the practical cessation of a previous high rate of emigration. In Russia another striking expansion has been achieved in less than thirty years by bringing in foreign experts and foreign machinery and, for the rest, almost completely excluding all ordinary trade with the outside world. These are examples of the justification, in terms of employment and expansion, of what used to be known as the protective stimulation of backward industries. Backwardness, however, is a relative term. Not a few of our older and once leading British industries are now backward in comparison with those of the United States. In any case most industries can be made to flourish anywhere, once they have had sufficient help or protection to enable them to take root or re-equip themselves.

Modern conditions have, however, also introduced other factors besides the mere desire to secure expansion of employment by developing new skill and the use of latent resources. The same technical equipment and the same manual skill in using it are now available to nations on very different levels as regards wages and standards of living generally. The product, under open market conditions, of low wage labour inevitably undersells the product of high wage producers when other factors are the same. In other cases, as in that of the United States, the volume of production of a high wage industry may

be such that its surplus can be sold at prices below the production cost of lower wage small-scale producers. In either case the answer of the old *laisser-faire* school (and the implied answer of the American proposals to-day) is that the labour in the industries affected should accept reduced wages, or go into other industries or emigrate. But the doors are shut to emigrants almost everywhere, not least in the United States which not so long ago eagerly absorbed a million a year. Organised labour resists equally wage reductions or transfer to other industries, while social insurance schemes remove the pressure of sheer want which might otherwise break that resistance. The result is not readjustment but unemployment.

There is yet another factor which has entirely altered the situation since the age of *laisser-faire* and free trade. An essential postulate of that system was that taxation should be low enough not to constitute an appreciable element in the cost of production. To-day it is directly and indirectly one of the very largest elements. It enters cumulatively into the cost of wages, of salaries, of materials, of transport, to an extent undreamt of in earlier days. Even before the First World War it was reckoned as equivalent to an excise of 12½ per cent on the cost of British production. It must be nearer three times that figure to-day. In the case of an excise directly imposed on a particular article no one in their senses would suggest that the same or a substantially competing article could be admitted without at least a countervailing customs duty. To protect the excise, as well as the employment, in the beer and whisky industries we levy corresponding duties not only on foreign beer and whisky, but on all imported wines and spirits. In a high taxation country like ours a properly adjusted system of countervailing customs duties is essential to safeguarding the revenue as well as to maintaining employment.

So far I have dealt with the various reasons which may justify the restriction of competitive imports in the interest of employment and expansion. But for all except a few very large self-contained economic units substantial imports are an essential element in employment and expansion. In primitive countries they may range from the equipment of transport to the consumers' goods needed to tempt productive

activity. In this country we have built up an industrial population of a size and of a standard of living far beyond what the natural resources of these islands could sustain. We can only maintain the employment and welfare of that population by the import of the vast quantities of raw materials required by these industries and of vast quantities of foodstuffs additional to what we can by any stretch grow at home. These can only be bought by the credits secured by the export of our surplus skill embodied in our manufactures. Up till recently the credits so acquired, whether by visible or invisible exports, together with the unearned income derived from the investment abroad of earlier surpluses, were assumed to be sufficient to secure our needs without any selective screening of our imports or any special arrangements with other nations to ensure for us a sufficiency of exports to pay even for the most essential imports. The great world depression of 1931 seemed to have taught us the need and the success of a very different policy.

At the end of the war the need was infinitely greater, but the lesson seems to have been entirely forgotten. The problem which was bound to face us after the loss of more than half our income from oversea investment and of much of our other invisible exports was a tremendous one. To maintain our pre-war standard of living it meant an increase in volume, not merely in value, of 75 per cent over the 1938 figures; in effect an increase of at least 100 per cent in our export of manufactures. In other words the problem was how to double an export of roughly £360 millions (or £720 millions at post-war prices), a figure which even before the war was already 19 per cent of the world's total export of manufactures. Where and how was that increase to be found? How would our problem be affected by abandoning our right to control our imports so as to reduce the strain on our balance of payments by excluding all unnecessary competitive manufactures? Or by abandoning our right to increase our home agricultural production by the use of tariffs, levy subsidies or quantitative restrictions? Or by abandoning the preferences which have secured a market for over half our total export of manufactures? Or by forgoing the right to make mutual reciprocal arrangements in which we

can use the bargaining power of our great consumer market? Or by forgoing the power to give an expansionist effect to such agreements by the use of sterling as an elastic medium of exchange? Where were the markets in which, after sacrificing all these advantages, we could hope, under conditions of cut-throat competition, to make up the deficit, let alone double our pre-war exports? Where could we expect to squeeze in alongside of that trebling of American exports which President Roosevelt promised to secure in order to provide jobs for 60,000,000 American workers? Was it in shattered Europe? In close shuttered Russia? Was it in the United States where they have now agreed to some slight lowering of tariffs in return for more than equivalent reductions elsewhere in duties and preferences, but show not the slightest intention of creating that vast import surplus which alone would afford some justification for the American policy?

It would seem that, so far at least as this country was concerned, none of these considerations was seriously examined, let alone answered, before assent was given to proposals which completely ignored them. It was thought enough to rely on the catch phrase that the maximum of world trade must benefit a country so dependent as ours on its export trade. No one seems to have asked how much of that trade we would, in fact, be able to secure under the proposed conditions, or even whether the maximum expansion of world trade would necessarily result from them. In any case not one of these aspects of the problem was even touched upon in these fantastically misnamed "Proposals concerning Employment". Their subsequent amplification in London and Geneva will be dealt with in the course of my narrative.

Apart from this essentially irrelevant and disconnected insertion about employment the main document was devoted to a project for setting up an elaborate International Trade Organisation consisting of a Conference, an Executive Board, a Commercial Policy Commission, a Commission on Business Practices, a Commodity Commission and Industrial and Mineral Unit, and a Secretariat with a Director-General and three or more Deputy Directors-General. The Conference was "to determine the policies of the Organisation and to exercise

the powers conferred upon the Organisation" and to delegate such of these powers as it thinks fit to the Executive Board. What these powers were to be was nowhere stated, nor whether they were to go beyond the collecting, analysing and publishing of information and making recommendations as to measures for implementing the objectives of the Organisation, nor whether anyone was bound to pay any attention to these recommendations. There was the usual paraphernalia, copied from the United Nations Organisation, of permanent and non-permanent seats on the Executive Board, which was to settle its own procedure, while the Conference was to come to decisions by simple majority vote. The whole Organisation was to be required to have a common membership with the Monetary Fund and to "be brought into relationship with the United Nations Organisation on terms to be determined by agreement between the Executive Board and the appropriate authorities of U.N.O. subject to approval by the Conference".

The commercial policy to which the nations that join the organisation were to pledge themselves was summed up in the Chapter headed "Purposes" of the Organisation in the following terms:

> "To promote national and international action for the expansion of the production, exchange and consumption of goods, for the reduction of tariffs and other trade barriers and for the elimination of all forms of discriminatory treatment in international commerce; thus contributing to an expanding world economy, to the establishment and maintenance in all countries of high levels of employment and real income, and to the creation of economic conditions conducive to the maintenance of world peace."

The policy thus outlined was more fully expounded in Chapter III headed "General Commercial Policy". It begins with a Section A dealing with the facilities to be accorded to trade and the information to be supplied to the Organisation. Most of the undertakings here asked of members are innocuous enough. But there was one proviso against "governmentally financed or organised boycotts or campaigns designed to

discourage, directly or indirectly, importation or consumption of the products of other members" which would seem to have been directly aimed against the advertisements of a body like the British Empire Marketing Board in favour of Empire products. Apart from the sheer economic pedantry of such a provision it is difficult, reading it in conjunction with other features of the proposals, to resist the conclusion that the dominant motive behind them, transcending all others, was to veto any kind of co-operation between the various parts of the British Commonwealth and Empire.

This is particularly noticeable when we come to the next section, B, headed "Tariffs and Preferences". This begins by stating that "in the light of the principles set forth in Article VII of the mutual-aid agreements" members should enter into arrangements for the "substantial reduction of tariffs and for the elimination of tariff preferences". Why preferences should be eliminated and tariffs merely reduced is nowhere stated. It then goes on to say that as an initial step in the process of eliminating tariff preferences it should be agreed that:

> "(*a*) Existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences.
>
> (*b*) All negotiated reductions in most favoured nation tariffs will operate automatically to reduce or eliminate margins of preference.
>
> (*c*) Margins of preference on any product will in no case be increased and no new preferences will be introduced."

Subsection (*a*) means, not only that Mr. Churchill's reservation in the Atlantic Charter, excluding preferences from the policy of non-discrimination there outlined, was to go by the board, but that existing treaty agreements with the Dominions were to be set aside in favour of the general decision to be secured, with our support, from an international conference in favour of the elimination of all preferences. Subsection (*b*) means that if Australia, for example, has a 20 per centy duty on a certain class of articles with a 5 per cent preference to this country and agrees to lower the duty to 15

per cent, all preference is to disappear at once. Subsection (*c*) explains itself. What is not explained is why, as an initial step, there is not to be a similar veto on the increase of any item in a tariff or of an export subsidy. There is, in fact, in the same section an escape clause enabling countries which have undertaken to reduce their tariffs nevertheless to "take temporary action to prevent sudden and widespread injury to the producers concerned". In the original proposals this proviso was not to apply to preferences. This glaring piece of inequity has since been rectified in Article 40 of the Geneva Draft Report. It is not easy to see the advantage of economic bargains which can at any moment be in effect repudiated.

Under Section C members are to be pledged not to impose or maintain quantitative restrictions on imports from other members. This is subject to a variety of exceptions arising under post-war transitional conditions and, more particularly, to two major exceptions. The first is in favour of import quotas on agricultural products which operate to restrict the quantities of like domestic products which may be marketed and produced, provided the result is not to reduce imports relatively to domestic production as compared with the proportion prevailing in a previous representative period. This, on the face of it, clearly seems to preclude the use of quantitative restrictions to reduce imports unless at the same time we proportionately reduce our home-grown supply. This has been denied by Ministers, but it is difficult to see on what grounds. For if the purpose of the measures taken is to increase our home-grown supply at the expense of imports they would come under the general obligation not to impose quantitative restrictions at all.

There is, of course, the second and even more important exception that quotas may be imposed by members confronted with an adverse balance of payments. This permission is to be subject to various conditions and more particularly to the condition that the restrictions should not be more restrictive of multilateral trade than the principles applicable to exchange restrictions under Bretton Woods in the transitional period. This would seem to imply that such restrictions might be imposed for as much as five years for the purpose of maintaining

our balance of payments. There is no corresponding suggestion that we might be allowed, for the same essential purpose, to maintain or impose new customs duties or increase our preferences. This is only one further instance of the want of logic or clear thinking in the whole document.

Quantitative restrictions must be non-discriminatory, the test of non-discrimination being that they should preserve, as between different importers, the proportions maintained in a previous representative period. This is, of course, very different from the non-discrimination of the Most Favoured Nation Clause, which insists on the relative proportion of imports being governed entirely by price competition. But it does mean that we cannot use quotas in order to improve our position by negotiation in Empire or foreign markets. The door is shut on the use of quotas for preferential purposes. New Zealand, for instance, could not undertake to buy a given quantity of British manufactures in return for our undertaking to buy her meat or dairy produce. It is equally shut on commercial treaties of the type of the present Danish treaty in which we undertook, in return for certain concessions in the Danish market, to give Denmark a certain quota of our imports both of bacon and of butter—provisions without which the treaty would have had very little value for either side.

The same principles are to apply to state trading and state monopolies. If it is decided that the state is to purchase the whole of a certain import it must do so "influenced solely by commercial considerations such as price, quality etc.", but apparently not by the no less commercial consideration of how it is to be enabled to pay by its exports. If our Government decides to make a state monopoly of the import of lamb it must presumably put the matter out to tender and accept the lowest offer, even if it comes from a country which buys little in return, while a country prepared to spend here nearly all that it earns by the transaction is to be excluded if its price is the merest fraction higher. Again in the case of a state monopoly of production there is to be a maximum protective margin between the import price and the sale price. In other words if our Government agrees to a 10 per cent duty on steel billets and then proceeds to nationalise the steel industry it must let in all

foreign steel that can be landed at 10 per cent below the price at which the state industry can afford to produce. Lastly states which exercise a complete monopoly of foreign trade are to pledge themselves to purchase annually from members an agreed aggregate volume of imports on a non-discriminatory basis.

There is a section, D, which tries, not very effectively, to lay down rules preventing export subsidies from interfering with the economic objects in view. Thus members are to bind themselves not to employ such subsidies so as to enlarge their share of the world market in a commodity as compared with their share in a previous representative period. How this is to be observed, and at what moment a subsidy is to be discontinued or reduced to keep down the total, is not explained. There are other sections dealing with restrictive business practices, with general exceptions, with frontier traffic and the formation of customs unions which are summarised in Appendix E and with which I need not weary my readers here. The same applies to a whole chapter devoted to inter-governmental commodity arrangements which would seem vaguely to contemplate elaborate international interference with ordinary trade, after examination by study groups, when economic matters have got more than normally into a state of confusion.

What is, however, worth noting are some of the points to which there is no reference in the document. There is no hint, in the chapter dealing with tariffs, that the multilateral scheme of non-discriminatory trade envisaged could only work if creditor countries lower their tariffs more than debtor countries, not merely in figures, but to the point at which their export surplus becomes a substantial import surplus. Nor is there any reference to the methods of discrimination enforced by the United States. To use fiscal bargaining power to secure economic concessions for one's own trade is forbidden. There is no suggestion that it is at least equally discriminatory to couple the granting of loans with the condition that the proceeds must be spent on American goods and carried in American ships. It is characteristic of the complete subservience to American interests that the Geneva Draft Report actually

lays it down (Article 30 1(b), note) that a country receiving a tied loan is "free" to treat this as a commercial consideration! A no less obvious example of discrimination left untouched, both in these original proposals and in the Geneva draft, is the American reservation of coastal traffic, interpreted to cover not only traffic from New York to San Francisco through the Panama Canal, but from New York to Hawaii. That discrimination, coupled with enormous American subsidies, had practically driven the British flag out of the passenger traffic in the Pacific before the war.

But perhaps the most flagrant disregard of all consistency by the United States, when its own interests are affected, has been its treatment of that very principle of preference which it seems so determined to abolish in our case. Not only has the United States had long-standing preferential arrangements with its dependent oversea territories and with the independent Republic of Cuba, but, while Congress was being assured in 1946 by Administration representatives that the Loan would mean the end of all British Empire Preferences (those embodiments of a policy of "economic aggression" to quote Mr. Sumner Welles), it was also busy fixing up a preferential treaty with the independent Philippine Republic. Under this treaty Philippine exports were to receive complete exemption from the American tariff for eight years, i.e. a 100 per cent preference, to taper off by 5 per cent annually over the next twenty years, as well as very substantial quotas for products like sugar, hemp, tobacco, etc. All that President Truman had to say in justification of this flagrant inconsistency was that the situation was unprecedented and that the political independence of the Philippines would be ineffective without economic stability. In what respect the situation of the Philippines was more unprecedented than that of, say, Malaya, which has suffered equally from Japanese occupation, he did not explain.

But it would seem that the United States position, too, is unprecedented, and that poor little America is also in need of economic stability to sustain its political independence. For the Agreement is not one merely to help the distressed Filipinos. It is a reciprocal scheme under which the United States secure a corresponding preference in the Philippine market over all

competitors over the whole twenty-eight years and are to be exempt from all discriminatory legislation imposed against other foreigners in favour of local financial or industrial interests. The bargain is one quite as much in the interest of the poor, suffering American exporter and financier, as of the Filipino beneficiary of American generosity. These and other preferential American arrangements are provisionally endorsed in the Geneva Draft Report. It is, indeed, typical of the whole American attitude, and of our own subservience, that the British negotiators, confronted in the recent tariff negotiations with American pressure to eliminate all our preferences, never even dared to suggest a corresponding elimination or even reduction of the American preferences, though these are of infinitely less importance to the American economy.

CHAPTER IX

THE FINANCIAL AGREEMENTS

THE CONDITIONS attached to the Washington Loan Agreement, taken in conjunction with the Bretton Woods scheme and the Commercial Proposals, represented the culmination of an American policy consistently pursued over many years and one which has steadily taken the fullest advantage of our urgent necessities and of our weakness and lack of any clear policy of our own. The climax naturally came when with the last shot fired we were told that Lend-Lease had automatically ceased. Whether we should, or could, have foreseen so drastic an intimation that we had ceased to be necessary to the defence of America is a question no longer worth discussing. Enough to say that it showed little of the spirit of partnership in a common cause and should have been a warning that from then on business was business, and that only by being tough ourselves were we likely to get any consideration from the tough guys in Congress and in the business world with whom the final decisions lie.[1]

It was obvious that unless we could get credit for a really substantial supply of dollar goods to cover our needs for the next three years we might have to submit to very considerable hardships and to a continued tightening of our belts, and that the fullest advantage of our plight would be taken by the business firm to whom we applied for accommodation. It was essential, therefore, to go with as strong a hand as possible, as any individual does when he applies to his banker for an overdraft, drawing the best picture we could of our situation and of our determination and ability to do without a loan if it

[1] Mr. Morgenthau, in an article in *Collier's Magazine* for October 1947, has stated that it was President Roosevelt's intention to continue Lend-Lease into a post-war Phase Two, and that during the Quebec Conference in the autumn of 1944 he, Mr. Morgenthau, as chairman of a Joint Anglo-American Committee, worked out a programme involving £1,375,000,000 help for America's allies in the first year after the war.

could not be secured on satisfactory terms. To do this effectively it was necessary for the Government not only to convince the Americans that it approached the problem in a self-confident and tough spirit itself, but that it had a tough nation behind it—and there is no tougher nation, as the world should know by now, if it thinks that it is being browbeaten or over-reached.

Whatever reasons there may have been, while the war was on, for not taking the nation and the Empire into the Government's confidence as to what was going to be asked of it in the shape of a direct reversal of national monetary and economic policy, those reasons had disappeared with the last shot fired. The event has shown that there was plenty of time for calling together an emergency Imperial Conference. In any case the obvious and proper first step which the Government should have taken was to have laid the whole problem before Parliament, the industrial world and the nation, as well as before our partners in the Commonwealth, and to have secured a definite mandate with which to arm any negotiator who went to Washington. In one sense, indeed, the Socialist Government already had such a mandate. Whatever else the election had made clear it was the determination of the working people of this country not to submit again to the vagaries of an unplanned world economy. What they demanded was not the nationalisation of this or that industry, but a national control over the whole field of monetary and economic policy. To quote again the declaration of the Trade Union Council in October 1944:

> "This problem", i.e. the problem of employment, "cannot be solved by methods of cut-throat competition. On the contrary, it demands the public regulation and control of our foreign trade as a whole."

The issue was one of such supreme importance that Mr. Attlee himself might have gone to Washington to explain that on this issue the Socialists had their mandate and would have the Conservatives behind them, instead of merely expatiating to Congress on the essential harmlessness of British Socialism.

Or he might have sent Mr. Bevin to pour out, in Washington, the passionate resentment, accumulated over twenty years, which he still feels whenever he thinks of the misery inflicted upon the British working people by the restoration of the Gold Standard. It would have been more strictly relevant there than on the Trades Disputes Bill in the House of Commons. Instead of that they sent Lord Keynes, a brilliant, versatile and ingenious economic specialist, with no political authority or responsibility, and, in so far as he was a politician at all, at heart an old-fashioned internationalist Liberal. His main armoury, indeed, seems to have been, not a strong brief to show how well we could do without a loan if it was not to our liking, but a statistical compilation showing how much we had suffered for the common cause. No wonder the American negotiators agreed that their own hearts were wrung by the sad and heroic story, but regretted to have to point out that Congress was dealing in business, not in sentiment.

Given such a hand to play, and given his own views of the world economic future, there was nothing Lord Keynes, with all his brilliancy, eloquence and verve, had to bargain with, and, indeed, nothing to bargain about except the amount of the loan, or the rate of interest. Neither of these points were of the first importance. Whatever the amount we should still have had to husband it with the utmost care and to supplement it from Empire and other resources. As for the rate of interest, the difference it could make in our future balance of payments was trifling. What mattered was whether we were to be allowed to pursue a trade policy which could give us reasonable hope of having any balance of payments at all to live by, let alone pay any interest, high or low, on any loan, large or small. And to begin by asking for a loan free of interest! Could anything have been better calculated to convince the American negotiators that our approach to the problem was completely unbusinesslike and our plight so sorry that it was only worth relieving in order to secure, by cumulative pledges, that mortgage on the future of the British Empire for which United States policy has worked so steadily and inflexibly for so many years.

The result of Lord Keynes' efforts were embodied in a

Financial Agreement covering a proposed "line of credit", an Agreed Statement clearing up the final disposal of Lend-Lease, and the American proposals for the future regulation of the commercial policy of the world and for the supervision of this policy by an international organisation which I have dealt with in the last chapter. With these proposals the British Government expressed its full agreement and pledged itself to use its best endeavours to bring them to a successful conclusion, i.e. a conclusion in conformity with the American views, at a forthcoming international conference. This pledge was issued by the British Government on the same day, December 6th, as the signing of the Agreement, and must be regarded as an integral part of the Agreement. It certainly is so regarded by the American administration whose whole defence of the Agreement to their own people was based on the assumption that the commercial proposals would come into effect. That, indeed, was also definitely implied in the Financial Agreement itself which laid down as one of the purposes of the agreement that it was "to assist the Government of the United Kingdom to assume the obligations of multilateral trade as defined in this and other agreements".

The Bretton Woods Scheme, to which our adhesion had to be notified by the end of the year, was obviously one of the agreements referred to. The American negotiators would certainly not have agreed to the line of credit if we had made it clear that we should not join Bretton Woods. On the other hand the Chancellor of the Exchequer made it equally clear in the debate on December 12th that we should not be able, and would not be prepared, to continue membership of Bretton Woods if the loan were not forthcoming. These various items constitute a single interlocking scheme for enforcing on the world—or as much of the world as is likely to agree—the nineteenth-century conception of promiscuous unregulated world trade within the framework of the Most Favoured Nation Clause applied in its most rigid form and of a limited supply of international money based on gold and arbitrarily controlled by an international committee.

I have already dealt in detail with the Bretton Woods Scheme and with the Commercial Proposals. They were the

real issue at stake. They constitute the price which our Government was prepared to pay for the loan, while the loan was the price the United States Administration was willing to pay for landing us in the net of America's world economy. At the same time the actual Financial Agreement and the Lend-Lease settlement (Appendix C), considered by themselves, call for a brief examination.

THE LEND-LEASE SETTLEMENT

Under the Lend-Lease settlement we pay \$650,000,000, or just over £160,000,000. Of this \$118,000,000 is in respect of supplies "in the pipe", i.e. actually on the way when V.J. Day brought Lend-Lease to an end, and \$532,000,000 represents the estimated net value of supplies previously furnished, but still unconsumed on that date. From our point of view we had, indeed, always assumed that "taking the dollar sign" out of our partnership meant that these supplies were a free contribution to the common cause. On that assumption, and regarding Lend-Lease as "the most unsordid act in history", to use Mr. Churchill's description, we cut down our exports, reduced to a minimum all domestic production not directly bearing on war supply, and had, in fact, completely rearranged and distorted our whole economy. That distortion obviously could not be rectified at one stroke on an unforeseeable V.J. Day. In our view the immediately prospective deficit of £1,250,000,000 on our balance of payments for 1946–48 was an integral part of the cost to this country of the arrangements concerted between us for the most effective prosecution of the war. That some account should be taken of that, as well as of the £750,000,000 spent by us in America out of our own resources before Lend-Lease began, was the least we felt entitled to expect. Our view, indeed, was that not only the unused balance of Lend-Lease goods, but the whole of the dollars we needed to see us through the next couple of years might reasonably have been given to us as a fair settlement of our share in the common effort.

It is, however, no use indulging in fond retrospective day-dreams on this subject. Whatever President Roosevelt and some of our friends in America may have intended, Congress

looked upon the transaction in a very different light. It regarded Lend-Lease as a business transaction in which Britain was hired for the job of defending America. The job was finished on V.J. Day and that ended the contract. If the discharged labourer was in difficulties "that was just too bad", but no concern of his previous employers. Besides that labourer would seem to have worked for various other employers, to whose defence his efforts were no less essential, e.g. India, Egypt or the British Colonies, who so far from paying him had made him pay in full for any goods or services they had furnished. The cases were, in fact, in no way comparable, but that does not affect the influence they had on American opinion or on American insistence on our trying to negotiate a writing down of the sterling balances.

The best conclusion we can come to is to ask ourselves whether we should still have gladly accepted Lend-Lease if we had fully understood the sense in which Congress sanctioned and finally interpreted it. There can be no doubt that we should have done so. That being so we can afford to accept the settlement of this particular issue with good grace. We may reasonably assume that the actual estimates of the value of what we kept were fair. We might note, too, as an interesting feature and a token of good will, that the United States Government presumably proposes to spend on jointly agreed educational programmes a substantial part of the amount, up to £12,500,000, which was to be earmarked for that purpose as well as for expenditure on buildings in the United Kingdom or the Colonies. There are many educational and research institutions, especially in the Colonial Empire, where such expenditure would serve purposes of common benefit to the British Empire, the United States and the world.

The £160,000,000 became a liability of the United Kingdom to be discharged on the same terms as the line of credit under the main agreement.

THE FINANCIAL AGREEMENT

The main agreement provided, subject to approval by the Congress of the United States (at the date of which it would come into effect), for a line "of credit" of $3,750,000,000, i.e.

about £937,000,000, to be drawn upon at any date between the "effective date" and 31st December, 1951. It was by Article 3 declared to be, not only for the obvious purpose of enabling us to meet our immediate needs and difficulties, but also, as I have already pointed out, "to assist the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements", i.e. in the Bretton Woods Scheme and the American Commercial Proposals.

The total amount of the credit drawn upon by December 31st, 1951 is to be repaid in fifty equal annual instalments with interest at 2 per cent. As the amount of interest in each year diminishes with the reduction of the total sum due, the amount of capital repayment increases *pro tanto.* Interest and amortisation only begin from the end of 1951. Under Article 5 we shall be entitled to a waiver of interest, but not of amortisation, under certain conditions. These are first, that the Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves. Second, that the International Monetary Fund certifies that the United Kingdom's income from exports, visible and invisible, over the average of the previous five years, has been less than its average imports for 1936–38, calculated at £866,000,000, subject to adjustment for changes in the price level. Third, that interest payments under any loan arranged in future with any other Government within the British Commonwealth are also waived. Fourthly, that the aggregate of releases or payments in that year of sterling balances held overseas (except those held by Colonial dependencies) is reduced proportionately. It is not clear how it is possible to assess relative proportions as between a waiver of interest and the release or payment of capital sums already in the legal ownership of a third party.

These various conditions are not alternatives, but must all be fulfilled if waiver is to be granted. The second condition, which is the most precise, is made dependent, not on the actual or prospective situation, but on that of the preceding five years, so that no waiver might be granted, however serious the situation in immediate prospect, if the balance of

payments situation had been favourable some years earlier. In any case the circumstances in which we might have to ask for a waiver of interest are hardly likely to arise apart from a situation in which we are unable to adjust our balance of payments as a whole. In that case it is not only interest but capital repayment which will, in fact, have to be waived. The waiver of, say, £20,000,000 out of a £35,000,000 annuity is not likely to be a material factor if we are free to pay our way as a whole.

So far as the size of the loan is concerned it was much less than the £1,250,000,000 that Lord Keynes asked for. On the other hand the loan of £300,000,000 by Canada, a relatively far more generous contribution to our needs, practically made up the difference. The two together, carefully husbanded, might well have proved sufficient if we had been free to cover a substantial part of our deficit by purchases within the sterling area under then existing sterling area conditions. But one of the conditions of the agreement was that within a year of the effective date all sterling credit arising from current commercial transactions or sterling balances released for current payments were to be freely available for currency transactions in any currency area without discrimination. This, in effect, meant that any country that had earned sterling by its favourable balance with us or had that sterling released for meeting current payments, would be able to ask us to pay in gold or dollars. It was a stipulation deliberately intended both to break up the sterling area and to encourage its countries to use the dollars lent us to buy from the United States instead of from us or from each other. Its disastrous consequences will be related in the next chapter.

There were other conditions affecting the release of a further part of the outstanding sterling balances by instalments after 1951 and binding us to attempt to secure adjustments of outstanding amounts "as a contribution to the settlement of war and post-war indebtedness" which were similarly part of the attempt to break up the sterling area and wreck the sterling system in the interest of Bretton Woods and its restrictive monetary regime. Similarly we were by Article 9 bound in principle not to curtail our imports of any

commodity from the United States by quantitative regulation unless we curtailed proportionately our imports from within the Empire. That was only another device to prevent our husbanding the borrowed dollars or making mutual arrangements within the Empire to enable us to increase our exports and so cover our balance of payments. The conditions attached to the loan within the Financial Agreement itself were, in fact, conditions aimed at forcing Empire and sterling area countries to buy from the United States and not from us or from each other. They were conditions which were bound grievously to reduce the value of the loan as a stop-gap to cover our immediately prospective deficit. They were even more calculated to make it impossible for us to attain a balance of payments at all and consequently ever to pay off the loan itself. They were, of course, only a part of the whole system which is to be forced on us by the simultaneous obligations we have undertaken in connection with Bretton Woods and the American Commercial Proposals.

On the other hand the loan itself, so far as its purely financial terms are concerned, was a perfectly reasonable business transaction. As a free nation, free to control our own home market, free to develop preferential arrangements within the Empire, free to make the fullest use of the expansionist monetary policy of sterling, free to make mutually beneficial trade arrangements with other countries, we should have no difficulty whatever in repaying it. It is the conditions attached to the loan and the whole policy to which we subscribed as the price of the loan which precluded all possibility, not merely of repaying it, but of our ever getting our heads above water and restoring our war-shattered economy. In one way or another we shall have to convince the United States that, while we mean honestly to fulfil the actual terms of the loan itself, the conditions attached to it are unfulfillable and must be waived.

CHAPTER X

FOLLY AND NEMESIS

ON DECEMBER 6th, 1945, the British and American representatives signed the Financial Agreements and declared their joint approval of the Commercial Proposals published by the United States Government on that same date. In the course of the next seven months committees both of the Senate and of the House of Representatives proceeded at immense length to discuss whether the loan should be granted or not. The case in favour, as stated by the representatives of the Administration, was to reiterate glibly that with acceptance of the loan Britain and her Empire were safely in the American bag, that Imperial Preference would be eliminated and that, with British support, the one-world system of non-discriminatory trade was assured and the danger of "economic blocs", British or otherwise, finally disposed of. If, on the other hand, the Loan were refused, Britain would build up her own system of mutual agreements for her own benefit and to America's disadvantage. Thus Mr. W. Clayton, Under Secretary for Foreign Affairs, told the Senate Committee on March 7th, 1946 that in the event of the loan being granted:

> "The markets of the world are open to our goods. Not just Empire markets."

Rejection on the other hand would mean that:

> "Britain will withdraw from Bretton Woods if she does not get the loan. She will then expand her agreements all round the world. If I were sitting in that position of power in Britain that is exactly what I should do."

Similarly Mr. Vinson, secretary of the Treasury, on May 14th, 1946 foretold the consequences of rejection:

"Egyptian and Indian cotton will replace American cotton, Rhodesian and Near Eastern tobacco will replace American tobacco, British automobiles and machinery will replace American automobiles and machinery. In half the trading areas of the world American products will be at a serious disadvantage in competing with the products of the sterling countries."

Of objections founded on any serious consideration or understanding of international economic problems there were none, except for some shrewd criticisms by Senator Taft, who would have preferred the outright gift of the still very substantial amount of £312,500,000 to cover purchases in the United States over three years. For the rest the objections were almost entirely based on an aversion to spending, on an undeserving and socialistically inclined John Bull, good dollars which might be devoted to the remission of taxation. In the end it would seem that what prevailed with Congress was not the prospect of the economic millennium for American exporters held out by the Administration so much as the growing fear of Russia and the desirability of propping up Britain as an essential buffer against the Russian menace. Presidential approval was accordingly given to the Loan on July 15th, 1946.

The British Government, on the other hand, made no attempt whatever to consult public opinion, whether in the business, industrial or trade union world at home, or in the Empire whose interests were vitally affected, or in Parliament to the extent of setting up any sort of committee to give even the most perfunctory scrutiny to a policy which involved a complete reversal of the policies of both the main parties in the State. The issue of trade policy—more than ever vital to our existence—had been an issue in British politics for a generation before it had apparently been settled for us in 1932 after the world depression. No suggestion for its reversal had been put before the Nation by either party at the recent election. On the contrary, as I have already pointed out, if the Socialist Government had a mandate it was, to quote again the Trade Union Council's declaration of October 1944, against "cut-throat competition" and in favour of "the

public regulation and control of our foreign trade as a whole". It was a mandate, not so much for nationalising this or that industry, as for a planned economy, for the general direction of our monetary, commercial and industrial system in the national interest and, not least, in order to secure stability of employment. Suddenly, out of the blue, within a week of the signing of the Loan Agreement, Parliament was ordered to swallow the whole scheme, the Financial Agreement, the Commercial Proposals and Bretton Woods, in a two days' debate.

It is true that one of the conditions implied in the agreement was our adherence to the Bretton Woods scheme, and this had to be notified before the end of the year. But there was no insuperable difficulty in a technical notification of adhesion subject to subsequent consideration by Parliament both of the scheme itself and of the inter-connected Loan and Commercial Proposals. The Chancellor of the Exchequer, in fact, made it clear in the debate that we could not stay in the Bretton Woods scheme if the Loan were not granted. Here again a complete reversal of the policy of all parties was involved. The one point on which all parties had been agreed ever since 1931 had been that we should not again be tied up to the gold standard. Anxious questioners in Parliament about Bretton Woods were invariably put off by assurances that we were in no way committed, and that there would be the fullest opportunity for debate before any decision was taken. When Bretton Woods was rushed through all that Government spokesmen could say was that this was not really the gold standard. How little validity there was in that plea I have explained in Chapter VII. Here I need only repeat Mr. Morgenthau's complacent declaration that Bretton Woods represented the "fruition of the American Treasury's gold policy".

Ministers, in the course of the debate, attempted to meet some of the criticisms directed against their precipitate action by suggesting that, so far at least as the Commercial Proposals were concerned, we were only committed to support them in principle at a future international conference. It was only if other nations generally agreed on them that we should be

bound to put those principles into effect ourselves. Thus Sir Stafford Cripps insisted that we were only pledged to the Proposals as "a basis for international discussion" and that

> "the whole matter is completely at large and no one is bound at all. We might want 26 countries to reduce their tariff before we were prepared to drop one preference. . . . We are absolute masters as to whether we ever get to that objective (i.e. multilateral non-discriminatory trade) or not".

This was a very different interpretation of our pledge from that on the strength of which Congress was subsequently induced to sanction the Loan. Judging by the course of negotiations at Geneva it would not seem that the British Government made much attempt to insist, in face of American pressure, on its own reading of its undertaking. What Government spokesmen did not make clear was that pending the eventual outcome of international discussions—and it is by no means certain that even the Havana Conference in November will get very far—our hands would be tied, and that no permanent mutual arrangements for the increase of Empire production would be possible. In any case there was nothing conditional about our pledge under Article 9 of the Financial Agreement to impose no quantitative restrictions on imports unless applied indiscriminately to imports from all sources. Nor was there anything conditional about our pledge to make sterling convertible within a year of the sanction of the Loan, a pledge extracted with the obvious and avowed intention of "abolishing the sterling area within a year"[1] and of discouraging sterling countries from trading with each other. We, in fact, handed ourselves over bound hand and foot by undertakings which, in the present world situation, could only mean a veto on all co-operation, whether in the British Empire or in Europe, for recovery and increased production, and a direct inducement to the world to concentrate on buying from the United States. In other words a direct stimulus to the forcing up of American prices and to the creation of a world dollar shortage.

[1] Broadcast by Secretary to the Treasury, Mr. Vinson, January 24th, 1946.

For the rest the case of the Government, and of those Conservatives who lacked the courage to vote against the Loan conditions, was that there was no other alternative. Only the Loan, it was argued, could provide the re-equipment and raw materials so urgently required by our factories. Only the Loan could prevent the privation and suffering involved in doing, not only without American luxuries, like films or tobacco, but without sheer necessities such as cotton, oil and actual staple food-stuffs. One may well ask how much greater the privations would have been than those which we shall now be called on to face. We should at any rate, so far as essential foods are concerned, have started increasing our agricultural production from a level which it is now apparently going to take us three years to get back to. We should have made arrangements for increased production with every Empire country, as well as outside the Empire, which would by now be beginning to bear fruit. We should have faced the difficult problem before us with a far freer hand than we have today. Demobilisation was only beginning and the man-power situation was still fluid.[1] We had not yet committed ourselves to large capital projects which have now to be held up or countermanded. We should thus have avoided that dissipation of materials and manpower on unproductive and unessential expenditure which we have now laboriously to reverse. We should have concentrated our whole effort on exports, while the world was still clamouring for our goods. We could, in fact, have caught the sellers' bus which we have missed.

Meanwhile American producing interests which depended on the British market, such as cotton, tobacco, films and oil, could obviously not have afforded to cut down or transfer their production immediately. Where else could they have exported it at that moment unless prepared to finance their trade by lending dollars or accepting foreign currencies? To whom could they have lent with better prospect of repayment, or what better foreign currency could they have taken than

[1] In spite of a total demobilisation of 3,000,000 in the first year of peace the net replacement in the textile industry was only 80,000 towards a deficit of 370,000 on a pre-war total of 1,000,000 workers. In agriculture the net increase was 2,000. In coal there was an actual decline.—LORD CHERWELL in House of Lords, October 29th, 1947.

sterling? That is, indeed, what the American film industry themselves were willing to do before Mr. Dalton imposed his present almost prohibitive taxation. As for equipment the announcement of a policy of British economic independence and Empire development would have seen a rush of American industrialists to get in on the ground floor, and would have led to a far greater import of up to date factory and mine equipment than the 15 per cent of the Loan which has been spent on that purpose. In any case whatever American supplies we should have got, even if they had involved a higher rate of interest, they would have been free of the paralysing conditions which accompany a political loan.

Whether we took the American Loan or not the supreme problem for this country after the war was how to pay its way in the world. The problem was one that was already becoming serious in the inter-war years, and the war only precipitated the decline in our position. In our wholehearted and unflinching effort for victory we had surrendered more than half our unearned income from investments. Most of our other invisible exports from shipping and finance had also gone by the board. Our visible export trade had been largely sacrificed to the exigencies of war production. Starting with such a heavy handicap, as compared with our pre-war position, it was evident that only a very large increase in our exports, as well as in our total production, could enable us to maintain our population at anything like our former standard of living. The required increase in our exports was estimated by the Government's economic advisers as a gross increase of 75 per cent over the volume of our exports in 1938. In view of the fact that the 1938 figures included nearly 25 per cent of non-manufactured exports, more particularly 35 million tons of coal, of a value of some £37¼ millions, a figure not likely to be maintained, let alone increased, the required increase of our manufactured exports was at the very least 100 per cent. Anyhow this figure of 75 per cent became the publicly announced "target" which was to be reached somehow. In the absence of any definite plan for attaining it the target was, in fact, nothing more than the statistical formulation of an unfounded aspiration.

How unfounded it was, if we were to be committed to the policy of reduced tariffs, non-discrimination and the elimination of Empire Preference, should have been obvious on any consideration of the past course of our trade and of our competitive power in world markets, as well as of the actual prospects of those markets themselves. To say that the American policy meant the expansion of international trade, and that because we are more dependent on international trade than any other country that policy must benefit us, was one of those easy catch phrases which cover the absence of serious thinking. It has already been pointed out in earlier chapters that the dog in the manger policy of non-discrimination has worked for many years in restriction of trade, and we have had not a few examples of that lately. Moreover the long term prospects of a greatly increased world market for manufactures, which is what matters to us, were not too good in any case. The trend had long been in the direction of industrialisation everywhere. Two wars had greatly accentuated it, and there was no reason to imagine that countries which had once started on that path would go back upon it, or would not be followed more and more by others. That trend had been accompanied by a reduction of something like 20 per cent in volume in the manufactured exports of the leading industrial countries over the last thirty years.[1]

There was little ground for the assumption that such lowering of tariffs as might be internationally agreed would seriously reverse the process. In any case the question was not how much international trade there might be, but how far this country could, in sheer unqualified price competition, secure the immense volume of exports implied in the so-called target. For two or three years the elimination of old competitors like Germany and Japan and the accumulated world demand might help us, if we ourselves could quickly produce the goods. But after that we had to face the fact that, however technically efficient our production, we were, thanks to our high standard

[1] World trade in manufactures in 1938 was only 82 per cent of the corresponding trade in 1929 while world trade in raw materials and partly manufactured goods stood at 95 per cent, and of foodstuffs at 91.5 per cent, of the 1929 figures. See also note on p. 33.

of living and the heavy overhead of our taxation, high cost producers. Our competitive position had steadily declined before the war and by 1938 we were only able to secure 8 per cent of the world's manufactured imports, outside the British Empire which took nearly a third of its manufactured imports from us and to which we sent over half our manufactured exports. What chance was there of our even maintaining our 1938 exports, if Empire Preference were eliminated, against the competition of the impoverished countries of Europe and the Far East once they were re-equipped, or against the surplus of America's vast mass production? Where could we squeeze in alongside of the trebled exports affording jobs for sixty million Americans which President Roosevelt promised as the fruit of American policy?

Heavily handicapped by circumstances and with the additional handicap of the conditions to which we had blindly subscribed, our only hope of averting the worst disaster lay in a whole-hearted concentration on the efficiency and volume of our production and on its direction into the channel of the export trade. For no Government would that have been an easy task. For it would have meant increasing the standard of work above the pre-war standard and reducing the national standard of living below that maintained by Lease-Lend during the war until the increased export target had been attained. Meanwhile it would have meant strictly rationing the Loan money so as to make certain of its lasting until the target was reached, and only using it to purchase the equipment and raw materials essential to that purpose and the very minimum of food necessary to maintain the reduced standard.

It would not have been easy for any British Government, with a public entirely unaware of our real situation, and only looking for release from the restrictions and austerities of war, to brace itself immediately to the full measure of the effort required. The effort was certainly beyond the capacity of Mr. Attlee's Government, even if it had had any real conception of the need for it. The fault lay, not so much in their Socialism as such, though even theoretical advocates of nationalisation might have admitted that the time given to

schemes which could have no immediate effect on output or export was a serious diversion from the supremely urgent task of paying our way. Socialism in Russia has known how to enforce privation and stimulate exertion in the interests of a boldly conceived plan of reconstruction. But the present Ministry had won their way to power, not only at the election, but over a whole generation leading up to it, by preaching Socialism, not as the hard road to an ultimate higher level of efficient production, but as the easy and immediate means of distributing benefits all round. They were social reformers who had always preached that there was unlimited wealth still in the hands of the rich available for endowing the poor; unlimited cake for all, if only the cake knife were entrusted to the right hands. They were trade unionists for whom nationalisation only meant the climax of a century of struggle for higher wages and shorter hours. To go back boldly upon all their teaching, and promptly to switch their whole policy into reverse gear, was beyond their power. In fact, while the all important thing was to make the limited Loan money last as long as possible in order to allow time for recovery, the conditions of the Loan itself, the psychology of the recipients and the increasing world crisis all conspired to send it at top speed down the drain.

Inability to realise the gravity of the situation was, however, not confined to Ministers. Their own trusted expert and chief negotiator of the Loan, the late Lord Keynes, defending the enforced convertibility of sterling in the House of Lords Debate on December 18th, 1945, declared that the main purpose of so large a loan was for "the precise object of liberating the future earnings of the sterling area", and that it was for that very purpose that half the Loan had been provided. "Our direct adverse balance with the United States is not likely to exceed during the period (i.e. until we could pay our way) more than about half the Loan." In the same speech he pooh-poohed the idea that the dollar was likely to become a scarce currency. Going into more detail in the *Economic Journal* he concluded that it was a "fully high estimate" that, beginning in 1947, the United States favourable balance might be put at between two and three billion dollars. When

we compare these confident prognostications with a direct adverse balance with the United States of £550 millions in barely one year, with the present paralysing world famine of dollars and with an American favourable balance of some 12 billion dollars for the current year, some allowance must be made for ministerial miscalculations at the outset.

Anyhow the Government took matters in hand on the assumption that the Loan would last "well into 1949, possibly 1950", i.e. for three to four years from the date of its official confirmation by President Truman.[1] By that date, July 1946, great progress had been made both with demobilisation and with the reconversion of industry, and the Government was free to give its attention to the problem of our external trade. Much good work was done both by the departments concerned, and by industry itself, in spite of the many handicaps imposed by shortage of materials and of transport, in order to take advantage of the world sellers' market while the going was good. But it was good work judged only by normal standards. The main effort of Ministers was still directed to the carrying out of a theoretical policy of domestic reconstruction and to the fulfilment of the long pent-up expectations of their supporters. Much of what was done was directly calculated to impede and thwart their own attempt to further production and more particularly export. Nor would it appear that their several policies were in any sense related to a single economic budget in which prospective consumption on the one hand, and investment on the other, were equated to possible production, or financial policy directed to enabling the two sides of that budget to correspond.

Finance, indeed, is by far the most powerful and most flexible instrument for the direction of economic effort. The incentives and the disincentives which it can apply exercise their pressure continuously upon every individual, while at the same time never directly interfering with or delaying individual freedom of action. The situation demanded a financial policy which should check all inflationary tendencies which might divert the public demand—and consequently manpower—from essentials to non-essentials, both directly

[1] Mr. Attlee in the House of Commons, August 6th, 1947.

and by encouraging saving and its investment in productive industry. The policy pursued by Mr. Dalton in the narrower Treasury and party interest was precisely the opposite. An artificially sustained low interest rate, coupled with the maintenance of the ruinously high direct taxation necessitated by war conditions, was a potent disincentive to saving and an equally potent encouragement to Stock Exchange gambling and to the spending of the untaxed profits. It equally encouraged investment in every kind of immediately non-productive undertaking. Over an even wider area nearly £400 millions spent in subsidies to keep the cost of living down to 35 per cent above pre-war at a time when wages had risen to some 70 per cent above pre-war, inevitably involved the diversion of expenditure and manpower to non-essentials, to fantastic price increases in every unrationed and uncontrolled article and to the evasion of rationing and control. The "black market" and the "spiv" have been the natural consequences of misguided finance. They can never be dealt with effectively by the wasteful diversion of man-power to inspection and form-filling, by heavy penalties or by the crude and clumsy direction of labour, but only by sound financial policy.

No less disastrous in its effects on essential production was the optimism, encouraged by low rates of interest, with which Government departments and municipalities spread themselves over every kind of capital undertaking which, however desirable in itself, could only divert man-power and materials from more urgent needs. The total figure of capital investment over two years was stated by Mr. Dalton (October 24th, 1947) as about £1,400 millions. More serious almost than this direct diversion was the all round shortage of materials and the bottlenecks, delays and frustration resulting from the attempt to cope with the problem by bureaucratic methods of allocation.[1] Sir Hubert Henderson has estimated that the loss of output consequent on these bottlenecks was greater than that lost by a million unemployed before the war. It has certainly been

[1] That these methods, however slow and cumbrous, do not necessarily secure accuracy, is indicated by the fact, only recently revealed, of the allocation of 2,000,000 tons of non-existent steel, with a consequent hurried reconsideration of the whole scheme.

a contributory factor to the disquieting decline in output as compared with manpower employed in our industries. That an increase over 1938 of 16 per cent in our manufactured exports should have required an increase of personnel employed from 980,000 in 1939 to 1,466,000 at the end of 1946, i.e. of nearly 50 per cent, suggests an overall reduction in efficiency of something like 33 per cent. How much of this was due to the cause just discussed and how much to restrictive practices and to sheer loss of working will and energy in all concerned it is impossible to calculate. But it does look as if both factors played their part.

The same question is inevitably raised by the lamentable figures of our coal production. In 1913 we exported nearly one-third of our coal production, representing in value ten per cent of all our exports and of even greater importance as a factor in keeping down British freights. In 1938 we still exported 35 million tons of an f.o.b. value of £37,400,000. In 1947 we seem incapable of producing our own minimum requirements at a time when nothing could so contribute to our recovery and that of Europe as a return to the 1938 export figure. In 1938 we produced 226,400,000 tons of mined coal or 308 tons per man. In 1946 189,200,000, including open cast coal, or only 259 tons per man. There seems now little certainty of even the modest target of 200,000,000 tons being reached in 1947. Some of this disastrous falling off may be due to depreciation of equipment, though there has, in fact, been a great increase in mechanization. Some of it to an increasing proportion of older men at work. But it is difficult to resist the conclusion that, whatever the cause, the will to work itself has declined.

This is not the place to discuss the merits or demerits of nationalisation as such. But in this particular instance the conduct of both sides up to date suggests that the miners have conceived nationalisation, not as the taking over of the industry by Government in the public interest, so much as the taking over of it by the miners in their own interest, and that the Government have in substance complied with this view. Be that as it may, no other single cause has done more to impede our recovery in every branch of industry than the shortage and

ever increasing dearness of this, the very foundation hitherto of British industry.

The course of events in 1946 was not calculated seriously to shake official complacency. Our exports showed a satisfactory increase, rising from 87 per cent in volume of 1938 exports in the first quarter of the year to 111 per cent in the last quarter or very nearly 100 per cent over the whole year. The total deficit on the year, instead of an anticipated £750 millions turned out to be only £400 millions, £350 millions of which was in respect of our trade with the United States and Canada. To meet this we drew £279 millions on the American and Canadian lines of credit, leaving £955 millions still in hand. But this was a dangerously deceptive figure, due mainly to the shortage of imports which represented under 70 per cent of the 1938 volume. Nor could it be expected that the initial conditions of a highly favourable sellers' market would not presently begin to decline.

The first serious setback came in the opening months of 1947 owing to the dangerous extent to which our stocks of coal had been allowed to run down, a situation aggravated by an unexpectedly severe winter. The export figures for the first quarter of 1947 fell back to 101 per cent, only reached 102 in the second quarter, and 114 per cent in the third quarter, or an average of 105 per cent over the nine months. Meanwhile the delay in the resumption of our essential imports, which had been responsible for a dangerous depletion of raw material stocks in some industries, was being caught up. But it was accompanied by ever increasing prices, both of food and raw materials, which threatened to upset all optimistic calculations as to the breathing space for recovery which the American and Canadian Loans could afford. By the middle of 1947 the price of our imports had risen by over 40 per cent since the American Loan was negotiated and by more than 20 per cent since we began drawing on it. To put it the other way round the Loan had shrunk by some 28 per cent. The dollars, to quote Mr. Dalton, were no longer "the same dollars that we borrowed". Drawings increased at an alarming rate. For the first six months of 1947 we drew on the American Loan alone to the extent of £405

millions, as against £150 millions drawn up to the end of 1946. Of this only £176 millions was for our direct trading deficit with the United States. The rest went for purchases in the Western Hemisphere by ourselves and by other sterling area countries which insisted on payment in American dollars in order to meet their own requirements.

In January 1947 a White Paper on the "Economic Considerations affecting relations between Employers and Workers" was issued, embodying the views of the Advisory Council of Employers and Trade Unions. In this the position of Great Britain was described as "extremely serious". It was followed in February by an Economic Survey for 1947, largely drafted before the coal crisis of the winter, and still far from facing the gravity of the prospect ahead. In this it was still assumed that we could afford to devote 20 per cent of the national income, i.e., some £1,700 millions, to capital investment in the course of the year. The estimated out-goings due to imports for 1947 were raised to £1,450 millions as against £1,100 millions in 1946. With estimated Government expenditure overseas reduced from £300 millions to £175 millions, this left a total estimated out-going of £1,625 millions. Towards this figure the Government considered that it would be unsafe to borrow more than £350 millions net. The balance was consequently to be found by an increase of exports and re-exports from £900 millions to £1,200 millions. To secure this result the "target" for the end of 1947 was set at 140 per cent of 1938 exports, equal to a target of 165 per cent in the export of manufactures.

For the attainment of this target the Government would seem to have relied mainly on the efficacy of exhortation. Ministers vied with each other in speeches imploring workmen to work harder and abandon restrictive practices and bidding manufacturers to bestir themselves and be more efficient, their efforts occasionally minimised by optimistic assurances by less responsible colleagues. In April our walls were enlivened by posters displaying a perplexed John Bull taking off his coat over the uninspiring slogan "Work or Want". But for some months still it does not seem to have occurred to Ministers that it was up to them to take any drastic

steps themselves whether in the domain of finance or of import control. Indeed it would seem, judging by the endorsement given by Mr. Dalton as late as March 10th to an article by Mr. Douglas Jay in the *Daily Herald*, that he expected the two loans to last for another two years from that date.

In the Budget of 1947 a stiff increase in the tobacco duties involving a trifling reduction (£7½ millions) of dollar imports, but yielding some £75 millions of revenue offset the inflationary effect of a corresponding remission of income tax on the lowest incomes. Incidentally it drew attention to the absurd stipulation of Article 9 of the Loan Agreement (since tacitly waived) which compelled the restriction of American imports to be accompanied by a corresponding restriction of imports from the Empire as well as from foreign countries. On June 30th Mr. Dalton announced that there would be some cuts in the imports of tobacco, petrol, films and newsprint, but that the total volume of imports, by then estimated at £1,700 millions, would be maintained. On July 8th, in spite of his admission that we were using up our dollar borrowings at the rate of £800 millions a year and that the spreading world shortage of dollars[1] was causing "increasing multilateral paralysis", he insisted that it was "the right thing not to cut into our import programme". As a concession, however, to the growing demand for vigorous action it was announced on July 7th that a new Economic Planning Board, under Sir Edwin Plowden, would be set up to advise the Government on the best use of our economic resources. What influence this has, in fact, exercised on policy remains obscure.

On July 15th, in accordance with the provisions of the Loan Agreement (see p. 130) sterling became convertible in respect of all current earnings as well as of such balances as might be released by agreement with the holders. From the very outset this condition had in some measure the effect intended by the American authorities, namely to induce

[1] It is worth noting that no attempt was made in any quarter to have the dollar declared a scarce currency under Article VII of the International Monetary Fund, and so permit selective discrimination against American imports. See page 101 for Mr. Dalton's confident assumption of the value of this provision, now realised to be a dead letter, in commending the Bretton Woods scheme to Parliament in December 1945.

sterling area countries which had contemplated looking to Britain for long term orders for equipment to transfer their inquiries to the United States. Meanwhile, in spite of Lord Keynes' statement that half the whole loan was intended to be used up in order to provide dollars for the sterling area, the Treasury seem to have come to the conclusion that no serious difficulty was to be anticipated as the result of this obligation. The Economic Survey issued in February 1947 suggested that "some loss of dollars" might follow, but evidently without attaching great importance to the point. Even as late as July 8th Mr. Dalton declared that July 15th had "in a large measure already been discounted" and that the additional burden of the obligation would be "noticeably less than many people suppose".

The basis for this astounding miscalculation would seem to have been the fact that the trade figures *under inconvertibility* had shown an adverse balance with the rest of the sterling area of only £12½ millions for the year up to the end of June. What was apparently obvious to other countries was that *once convertibility was in force* urgently needed dollars could be secured, not only by increasing their exports to Britain, but by cutting down their imports from Britain. The process had already begun before July 15th, but was naturally intensified from that moment. Meanwhile agreements had been or were being concluded with holders of sterling balances which involved no unexpectedly great releases, the largest, those with India and Egypt, involving only £67½ millions and £35 millions respectively. But it is clear from Mr. Dalton's own account on August 7th, of what had been achieved by these agreements in the way of voluntary agreements for blocking the bulk of the £3,554 millions of outstanding balances, that some £500 millions had not been brought under control. It also looks as if in some cases understandings in the nature of "gentlemen's agreements" were not observed, or that the Governments concerned were unable to restrain the flight from the pound.

Once the lid was off, the sand in the dollar hour glass ran out at a terrifying rate. During July it was running out at the rate of £24 millions a week. In the third week of August the

figure was nearly £60 millions. On August 20th, when some £200 millions had gone down the drain (£230 millions between July 1st and August 31st), the Government announced that, after consultation with the United States, it had decided to suspend convertibility, while £100 millions, all that remained of the American Loan, were frozen and no longer available. Of the £1,237 millions borrowed from the United States and Canada all that remained to be drawn upon thirteen months after the grant of the American loan was £125 millions of Canadian dollars.[1] Since then the £100 millions has been unfrozen, but only on a completely unqualified reaffirmation by Sir Stafford Cripps, in a letter of December 4th, of our adhesion to the American policy:

> "I should like to take this opportunity to reaffirm the intention of His Majesty's Government to adhere as closely as possible to the objectives of the agreement at all times and to implement these objectives fully at the earliest possible time."

The flight from sterling was due in the main to the world scramble for dollars for which not only world shortages, but also the whole United States policy of breaking up the sterling area and of forcing American exports at the expense of all mutually beneficial trade exchanges was responsible. But the final collapse was precipitated by the general loss of confidence in the British Government's power or willingness to take any effective measures to set its own house in order, while the artificially low interest rate offered no inducement to holders of sterling balances to keep them here. In the debates on August 6th and 7th, Ministers had drawn a terribly re-

[1] On October 24th, Mr. Dalton gave the total net dollar expenditure up to August 20th as $3,115 millions (another $235 millions were drawn but expended after that date). Of this $1,350 millions was our net payment to the United States, $960 millions to the rest of the Western Hemisphere, $620 millions spent by the rest of the sterling area, $150 millions spent outside the sterling area and the Western Hemisphere and $35 millions, our subscription to the International Bank. Of the $1,800 millions gross spent in the United States, 23 per cent was spent on food, 28 per cent on raw materials, including oil, 15 per cent on machinery, 10 per cent on tobacco, 4 per cent on films, and 13 per cent on feeding Germany.

vealing picture of the weakness of our position. But their only positive step other than a new list of "targets" was the re-imposition of the direction of labour. This was taken generally to be a mere gesture to cover the absence of any policy which the new powers were to be used to enforce, and only served to accentuate the general pessimism about our position.

Barely a year sufficed to dissipate the borrowed dollars which were to have given us three or four years of breathing space in which to reconstruct our economy and double our pre-war export of manufactures in a world of unlimited competition. We are left with our debt, peddling out our reserves to meet a dollar drain still running at the rate of £900 millions at the end of October, and with the highly uncertain hope of reaching an export of 160 per cent in manufactures by the middle of next year, at the cost of the severest privations for years to come. What is more, we are being driven by sheer necessity, step by step, to repudiate or evade every one of the fatal conditions to which we pledged ourselves as the price of a short-lived and ill-spent reprieve. The rise in American prices and the extent of Europe's deficiencies have contributed in no small measure to the disaster. But the main causes have been the lack of any foresight or husbandry in dealing with the problem by our own Government and, above all, the unwisdom of ever accepting a loan on terms which precluded our recovery. Rarely has Nemesis trodden so swiftly upon the heels of Folly.

CHAPTER XI

THE GENEVA DRAFT REPORT

IT IS NOW necessary to go back in order to deal with the subsequent development and modification of the original American Commercial Proposals discussed in Chapter VIII to which the British Government pledged its support as an essential condition of the Loan. In February 1946 the Economic and Social Council of the United Nations passed a resolution calling for an international conference on trade and employment to consider the creation of an International Trade Organisation. It also set up a Preparatory Committee of nineteen countries to make arrangements for the Conference and to prepare a draft charter for the Organisation. In preparation for these discussions, and with the obvious purpose of keeping them well in line with its own policy, the United States Administration then proceeded to produce its own suggested charter. This was only an elaboration and partial rearrangement of the original proposals and need not detain us. On October 15th representatives of eighteen nations met in London, Russia declining on the ground that there "had not been time to study the proposals," an attitude which she maintained at the subsequent session at Geneva. Czechoslovakia, however, took part, as a member, and Poland, as an observer, at both meetings.

The London Meeting of the Preparatory Committee sat for six weeks. The Indian delegation made it clear at the outset that, so far from considering tariff reductions, India had every intention of pushing ahead vigorously with a policy of protection for industrial development. Several other delegations supported this claim for a special regime for "relatively undeveloped" countries. This view was accepted and a whole new chapter dealing with "Economic Development" was included. The importance of stability of employment was stressed by Australia, and the section dealing with

the subject was somewhat expanded. But it still amounted to no more than to say that it was every country's duty to keep its people fully employed, and that this must not be done on lines conflicting with the general objects of the Charter. In other words positive measures of protection against outside competition or to secure employment by mutual preferential or other discriminatory arrangements were excluded. The resultant new edition of the Draft Charter (published as E/PC/T/33) was submitted to a Drafting Committee which sat in New York from January 20th to February 25th, 1947 and produced a revised version (E/PC/T/37) which was the starting point for the work of the Second Session of the Preparatory Committee which met at Geneva on April 10th, 1947.

Four months of speechifying by leading delegates, endless work by their staffs—the British delegation alone numbered 97 permanent members, not including typists and messengers, and required 30–40 cars, resulted in a report of 100 articles covering nearly a hundred printed pages (Appendix F; Cmd 7212). This is now before a Conference of all the United Nations at Havana. The opening statement of purposes set out in Chapter I, Article 1 of the Report is in effect a repetition, somewhat differently arranged, of the statement of purposes in the original Commercial Proposals, but gives to the reduction of tariffs and other barriers to trade and to the elimination of discriminatory trading in international commerce a substantive heading of its own. The only new purpose introduced is in item 2 which runs:

> "To foster and assist industrial and general development, particularly of those countries which are still in the early stages of industrial development and to encourage the international flow of capital for productive investment."

Chapter II is devoted to "Employment and Economic Activity". There is a considerable expansion of verbiage in this as compared with the original draft, most of it meaningless or platitudinous. Such for instance is Article 4 by which members are by "appropriate and feasible methods to

eliminate sub-standard conditions of labour in exporting industries". But it is still assumed that the avoidance of unemployment "must depend primarily on domestic measures" and it is again laid down in Article 3 that "measures to sustain employment, production and demand shall be consistent with the other objectives and provisions of the Charter", in other words must not interfere with promiscuous international competition.

Chapter III, dealing with Economic Development, was greatly expanded to meet the eloquent pleas of the representatives of undeveloped countries. In effect they managed to secure a general right to increased protection, subject always to its being non-discriminatory. Even here they secured the right (Article 15), in special circumstances, to make new preferential arrangements without contemplating a customs union, subject to a special affirmative vote of two-thirds by the Organisation. So far as the text goes it is not clear whether this provision is intended, like the rest of this chapter, to apply exclusively to "relatively undeveloped" countries, e.g. to such a case as future preferential arrangements between, say, India and Pakistan or Burma, or whether it would allow of new preferential arrangements among European countries or within the British Commonwealth and Empire, most of which is certainly "relatively undeveloped." But as this last exception would be directly contrary to the main purpose of vetoing the development of Imperial Preference for which the United States has been working, it is unlikely that this was, in fact, contemplated or, if applied for, would secure the two-thirds approval of the Organisation.

On the other hand the United States point of view is emphasised in the provisions (Article 12) dealing with international investment by a paragraph precluding a Member from imposing "requirements on the investments of nationals of other members, appreciably more onerous than those which it imposes on its own nationals or those of third countries". This is not to preclude transfer of ownership subject to "the payment of just consideration" and consultation. But there are so many qualifications and ambiguities in this chapter that it can mean anything. In

any case, in regard to this chapter and to chapter II, those most concerned may be said to consider their provisions as dominant, while the United States consider them as definitely subordinate to Chapter IV which embodies the American views on Commercial Policy and is the hard core of the whole report.

Chapter IV begins by restating the Most Favoured Nation principle in its most rigid form. But it sanctions for the time being the existing preferences in the British and French Empires, in American dependent territories, and in respect of the Philippines and Cuba, as between certain South American States and between the Syro-Lebanese Customs Union and Palestine and Transjordan, as they stood on April 10th, 1947 or as they may since have been reduced by the contemplated General Agreement on Tariffs and Trade. The real gist of the Chapter is, however, contained in Article 17 by which members are pledged to enter into negotiations, at the request of the Organisation, directed to the "substantial reduction of tariffs" and to "the elimination of the preferences referred to in Article 16". The mischievous provision that a reduction negotiated only in the Most Favoured Nation rate shall operate automatically to reduce or eliminate the margin of preference is retained. On the other hand a reduction negotiated only in the preferential rate must involve an automatic reduction in the Most Favoured Nation rate. In any case no margin of preference is ever to be increased. The only concession to British interests and to common sense is a provision in Article 40 by which the "escape clause" allowing the temporary withdrawal of a customs concession, if it causes serious injury to domestic producers, is also to be applicable so as to permit the temporary restoration of a preference in analogous circumstances if both the giver and receiver of the preference are agreed.

That the American intend to make use of the escape clause, and to an extent which may easily make nonsense of any trade agreement, is shown by Clause 1 of the Executive Order issued by President Truman on February 25th, 1947, which runs as follows:—

> "There shall be included in every trade agreement hereafter entered into under the authority of the said Act of June 12th, 1934, as amended, a clause providing in effect that if, as a result of unforeseen developments and of the concession granted by the United States on any article in the trade agreement, such article is being imported in such increased quantities and under such conditions as to cause, or threaten, serious injury to domestic producers of like or similar articles, the United States shall be free to withdraw the concession, in whole or in part, or to modify it, to the extent and for such time as may be necessary to prevent such injury."

A clause to that effect (xix 1a) figures in the Agreement now concluded while a corresponding clause in the interests of Empire Preference has also been inserted on the British side. Clause 9 of President Truman's Order insists on the inclusion in any such trade agreement of a most favoured nation provision, "subject to the minimum of necessary exceptions and designed to obtain the greatest possible benefits for exports from the United States", and contemplates the withholding of the benefits of concessions granted under the Act of 1934 to any country discriminating against the trade of the United States; in other words, a conditional method of enforcing the unconditional Most Favoured Nations Clause.

Article 20 begins by abolishing in general all quotas, import or export licences or similar quantitative restrictions, subject to certain exceptions such as export restrictions temporarily applied to relieve critical shortages of foodstuffs or import restrictions on agricultural or fishery products necessary to the enforcement of government measures to restrict the marketing or production of the like domestic product or to remove a temporary domestic surplus by free or wider market price distribution. But such restrictions must not reduce the total of imports relative to the total of domestic production "as compared with the proportion that might reasonably be expected to rule between the two in the absence of restrictions". In other words there is, in principle, an absolute veto on the use of import quotas as a measure of

protection and stability of prices for agricultural production, the one type of case in which the quota system is, for certain commodities at least, preferable to protection by customs duty and may, indeed, be essential. Such quantitative restrictions must (Article 22) strictly follow the rule of non-discrimination. In the original Proposals allocation among suppliers was to be fixed purely by reference to imports "during a previous representative period." This is now modified by adding that "due account should be taken of any factors which may have affected or be affecting the trade in the product" so as to bring the import quotas into line with the shares of the trade which the various member countries "might be expected to obtain in the absence of such restrictions".

An important concession from the British Empire point of view is the exception (Article 23, 4a) from the general rule of non-discrimination which may be made in the case of "territories having a common quota in the International Monetary Fund". In their case restrictions applied against other countries need not be applied *inter se*. This would enable us to exempt the Colonial Empire, including for this purpose Southern Rhodesia and Newfoundland, from import restrictions imposed on the rest of the world. It is difficult to understand why the British representatives, having secured this preferential concession, failed to secure the corresponding concession in respect of remission or reduction of customs duties for the Colonial Empire.

The whole of the provisions against discriminatory restrictions are, in any case, subject to their being disregarded "when a substantial and widespread disequilibrium prevails in international trade". In that event a country may impose discriminatory restrictions "to the extent necessary to obtain additional imports above the maximum total which it could afford" if it followed the rule. But this must not be done so as to increase substantially the cost of the imported article, nor so as to reduce appreciably the gold or convertible currency which the country in question would normally secure from its exports to members not party to the arrangement, nor, more generally, so as to cause unnecessary damage to any other member. The Organisation is to be the judge as to

whether the conditions justifying such exceptions have been fulfilled and, at any rate not later than March 1st, 1950, may review the situation and declare that no such disequilibrium exists as would warrant the continuance of such exceptions. After March 1st, 1952 (the end of the Bretton Woods interim period) any such discriminatory action, or continuance of such action, shall only take place with the express sanction of the Organisation.

The rule of non-discrimination is to apply equally to state trading (Article 30) which, as in the original proposals, must be "solely in accordance with commercial considerations". In other words no arrangements based on mutual advantage are permissible. The whole of a state order must go to the cheapest tenderer, even if that tenderer's country buys nothing in return.[1] There must, in fact, be no tied tender. But—and this is typical of the whole spirit of a scheme devised from beginning to end in the interests of the American export trade—"a country receiving a tied loan is *free* to take this loan into account as a commercial consideration when purchasing requirements abroad"! State purchases for purely govermental use are, however, not to be subject to strict non-discrimination, but only to fair and equitable treatment" of the trade of other members. In the case of a state export monopoly the member imposing it must negotiate with other members interested arrangements to limit or reduce any protection afforded to domestic users of the monopolised product or to assure adequate export supplies at reasonable prices. Conversely in the case of an import monopoly there must be negotiated a maximum customs duty and the price charged in the home market for the article concerned must not exceed landed cost, plus duty, plus a reasonable profit and incidental charges.

In the case of subsidies (Articles 25 and 26) members imposing them are to notify the Organisation, and if the

[1] Lord Addison has, however, stated (House of Lords, October 30th, 1947) that "the maintenance of our trade connexion" with a Dominion is regarded by the Government as "a first rate commercial consideration. . . . Any other interpretation would have knocked the bottom out of our Commonwealth system." This is satisfactory as far as it goes, but goes far to make nonsense of the provision in question.

subsidy causes or threatens serious prejudice to the interest of any other country there is to be consultation with a view to limiting the subsidisation. In any case subsidies must not result in an export price below the price in the domestic market. Duties or taxes imposed on domestic consumption may, however, be exempted in the case of exports, provided that the proceeds of such duties are not used to subsidise exportation. This is presumably to cover such cases as the excise duty on spirits which it would obviously be absurd to levy on exports. It is at least arguable that the whole of the enormous overhead of national, municipal and social service taxation in this country amounts to a heavy veiled excise on domestic production and consumption and could reasonably be remitted in whole or part on our exports. Anti-dumping or countervailing duties are not to be imposed unless the dumping or subsidisation causes or threatens material injury to an established industry or prevents or retards the establishment of a new one. In any case they must not exceed the amount of the subsidy and must not be applied against the kind of remission of excise duties referred to above. The possible use of import subsidies to foster imports from particular sources is not discussed in the Report.

An actual customs union involves, of course, a much greater measure of discrimination against the outside world than any bilateral trade treaty or preferential arrangement between a group of nations. It amounts, in fact, to a 100 per cent preferential remission of duties as between its members. But as it was generally recognised in the nineteenth century that the formation of a customs union superseded the Most Favoured Nations Clause as between its members, the United States have not directly challenged the right of nations to come to such an arrangement. This quite illogical position may be partly due to mere muddled thinking. But it is supported by the very practical consideration that under modern conditions, and as between nations with a highly developed national life, a customs union is, in fact, a fairly remote contingency. The tariff policy of modern nations is so closely integrated with their whole industrial, social and defensive structure that it cannot easily be handed over to any joint

authority unless that authority is also directly responsible for industrial and commercial policy in all its aspects, for currency and even for defence and foreign policy.

There may be exceptional cases such as that of Belgium and Holland, or the Scandinavian countries, or conceivably even France and Italy, where the general economic structure is so similar and the assumption of national good relations so strong that a customs union might be feasible without political union. But such a wider union as that of the countries of Europe as a whole, or even of Western Europe, with their marked differences of character, traditions and economic structure, or of the nations of the British Commonwealth, is difficult to envisage, at any rate except as the result of a prolonged period of preparation by increasing measures of economic preference accompanied by corresponding closer political integration. The Americans at Geneva took good care to prevent any such progressive development by the following paragraphs of Article 42 which provide that the provisions of Chapter IV shall not be construed to prevent:

> " advantages accorded by any member to adjacent countries in order to facilitate frontier traffic; or the formation of a customs union or the adoption of an interim agreement necessary for the attainment of a customs union; *Provided* that the duties and other regulations of commerce imposed by, or any margins of preference maintained by, any such union or agreement in respect of trade with members of the Organisation shall not on the whole be higher or more stringent than the average level of the duties and regulations of commerce or margins of preference applicable in the constituent territories prior to the formation of such union or the adoption of such agreement, and *Provided* further that any such interim agreement shall include a definite plan and schedule for the attainment of such a customs union within a reasonable length of time."
>
> "No member shall institute or maintain any interim agreement under the provisions of paragraph 2 (*b*) of this Article if, after a study of the plan and schedule proposed in such agreement, the Organisation finds that such agreement

is not likely to result in such a customs union within a reasonable length of time."

Any approach to a customs union by stages is thus forbidden. Existing preferences already in force may be maintained, but not, on the average, increased. The resultant customs union tariff must not be higher than the average tariff of the states which join to form it and, presumably, may never be raised subsequently. It would be difficult to devise a more ingenious indirect veto upon any attempt of the nations of the British Commonwealth to draw closer together. How any of the representatives of the Commonwealth could have subscribed to such a denial of their freedom passes belief. It can at best only be explained as due to the desire to appease the United States at all costs, to the difficulty of resisting the logic of non-discrimination once the principle had been accepted and last, but perhaps not least, to a certain cynicism on the part of all the nations represented at Geneva as to anything ever coming out of the elaborate theoretical scheme which they were professing to concoct.

Chapters V and VI dealing with restrictive practices and inter-governmental commodity arrangements contain nothing new in principle. Nor does Chapter VII which deals with the constitution of the Organisation itself. This is to consist, as in the original Proposals, of a Conference of all the members in which the final authority to determine the policies of the Organisations is to be vested, an Executive Board to which the Conference may assign such powers as are not expressly imposed on the Conference or on the Tariff Committee, such Commissions as may be required, and a Director General and staff. The Executive Board is to consist of eighteen members. Eight of these, including the Soviet Union, are appointed by name, three are to be appointed by American states other than the United States and Canada, one each by the Scandinavian and Arab League States and five by the remaining members. The Commissions are in the present draft report left undefined. On the other hand the Tariff Committee is a new feature. Its task is to act on behalf of the Organisation in initiating negotiations and making

recommendations and determinations on tariff questions. The Director General's powers and duties are to conform to regulations approved by the Conference and he is to "administer" the Organisation subject to the general supervision of the Executive Board. Voting on all these bodies is to be normally by simple majority. But no agreement could apparently be reached as to the basis of voting power, and a variety of alternatives are suggested ranging from one vote for each customs union, e.g. one for Bermuda and one for the United States, to a variety of schemes for weightage by population, external trade, or national income.

There seems to have been no agreement at Geneva as to the treatment of non-members of the Organisation. One alternative proposal allows a member, a substantial part of whose trade is with a non-member, to suspend any of the provisions of the Charter if their execution causes serious injury to its legitimate interests. In other words members largely dependent on trade with Russia must secure the consent of the Organisation to ignoring its rules or, failing that, withdraw from the Organisation. Another alternative requires the consent of the Organisation before admitting a non-member to the benefits of Chapter IV of the Charter. A third forbids a member to be a party to any agreement by which a non-member would be contractually entitled to these benefits or to extend to a non-member any reductions in tariffs resulting from negotiations under Article 17. All three alternatives agree in forbidding members from seeking preferential or exclusive advantages in their trade with non-members. But as there is no obligation on members collectively to discriminate against non-members and as these latter have much greater freedom of retaliatory action, it is extremely unlikely that any members will, in fact, discriminate against them. It, therefore, remains difficult to see why any country should tie itself up with all the vexatious restrictions of the Charter.

The hundred articles of the Report include, of course, a great many innocuous and even useful provisions, such as those dealing with valuation for customs purposes, formalities concerned with exportation and importation, marks of origin, the publication and administration of trade regulations,

information and statistics and, possibly, also, those dealing with the restrictive activities of public and private commercial enterprises, which might with advantage provide the subject matter for an international organisation on modest lines. But the main scheme with its ambitious design for controlling world trade is one gigantic and preposterous piece of make-believe. Few of the delegates really liked it, though they all enjoyed the sport of elaborating it and eventually signed it, subject to some sixty-five reservations and expressions of dissent over and above the many special exceptions for balance of payments and other temporary difficulties allowed for in the main text. The less scrupulous will, in any case, cheerfully disregard its provisions and get away with it. For the more conscientious those provisions will involve infinite waste of time and embarrassment in bringing their own affairs before this commercial Sanhedrim.

Concurrently with the drafting of the draft Charter of the International Trade Organisation the delegates at Geneva were busily negotiating together in pairs or groups at mutual tariff reductions. These negotiations, conducted for five months in the strictest secrecy, were concluded by September 24th, and the resulting seventy agreements were embodied in a single document setting out the main outline of a system of world tariffs. These agreements are, of course, subject to ratification. The position in regard to the schedules for the reduction of tariff concessions and reductions of preferences as between the United States and the members of the British Commonwealth is that after the British Commonwealth delegates had agreed to some 150 reductions of preferential margins, ranging from 5 to 20 per cent, as the maximum they could surrender for such tariff concessions as were offered by the United States, Mr. Clayton, the chief of the American delegation, insisted on a yet further whittling away of Imperial Preference.[1] A series of conferences with

[1] No attempt was made by the British delegates to insist on, or even suggests, a corresponding reduction or elimination of American preferences or to challenge the American interpretation of coastal traffic as covering, not only the disconnected Atlantic and Pacific coasts of the Union but all its overseas dependencies. "The question did not come up at any stage n the negotiations."—MR. HAROLD WILSON, October 29th.

Sir Stafford Cripps, at the end of September, failed to resolve the deadlock. Agreement was reached in October involving further concessions by this Country and by the Dominions, as well as by the United States. The Final Act together with the General Agreement (Cmd 7258) and the schedules of tariff concessions were released on November 18th.

The General Agreement consists of 31 Articles. These are in substance a repetition of those of Chapter IV of the Geneva Draft Report, but are to be superseded by the conclusions of the Havana Conference. It and the schedules will not enter into full force until accepted by countries representing 85 per cent of the external trade of the signatories, but will be applied provisionally as from January 1st 1948 as between Australia, Belgium, Canada, France, Luxemburg, the Netherlands, the United Kingdom and the United States.

The Agreement involves reductions by the United Kingdom of duty on imports which from the 22 countries concerned amounted in 1938 to £19.8 millions. It covers a further £10.6 millions where the retention of the duty is equivalent to a reduction and £63.3 millions of "bindings" i.e. items in respect of which we are pledged not to increase duties. As against this we secure in the United States reductions on trade amounting to some £13 millions in 1938 and "bindings" on another £10 millions, and from the other foreign signatories reductions on £36 millions and bindings on £29 millions. We also consent to reductions in preferences on £37.4 millions, partially offset by £12 millions reductions in Dominion duties and £15 million bindings. More than half the reductions in preferences and duties are made by Canada. The Empire loses preferences here on only £8.2 millions. In any case the whole of the rest of the trade between Empire countries is "bound" against any increase of preference.

The agreement only covers some ten per cent of our total trade and its actual effects when it comes into operation cannot be great. The one thing that can be predicted about it with any certainty is that, so far from doing anything substantial to redress the unbalance between the United States and the United Kingdom, it is calculated to stereotype if not to aggravate the situation. In practice, indeed, it is

likely to prove little more than a symbolic gesture of the acceptance, in principle, of American policy. For, on the plea of "disequilibrium", almost all the countries concerned will render their concessions nugatory by import restrictions and bilateral arrangements, while even the concessions made by the United States will be liable to be suspended if they "should threaten serious injury to domestic producers". Its most serious aspect is that, taken together with the Geneva Report, it vetoes all long term agreements for recovery by mutual co-operation, whether between the nations of the British Commonwealth or between those of Europe. We are now bound, so far at any rate as our tariff is concerned, for the next three years. At the end of that time we must at all costs regain our full independence.

CHAPTER XII

THE MARSHALL INITIATIVE

WHILE the Geneva discussions were dragging on interminably an entirely new approach to the whole economic issue was made by Mr. Marshall, the great American soldier who is now Secretary of State, in a speech delivered at Harvard on June 5th, 1947. Dealing, not with abstract economic theory but with the particular and urgent problem of Europe, he admitted that:

> "Europe's requirements for the next three or four years, of essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help."

What was significant in his speech, however, was not so much the recognition of Europe's urgent and almost desperate plight, as his diagnosis of its cause. This was, in his view, due to a shortage of production caused, less by actual visible destruction, than by "the dislocation of the entire fabric of European economy". For that the only permanent remedy was the co-operation of the European nations, and only clear evidence of such co-operation would justify the United States in priming the pump of European recovery:

> "The initiative, I think must come from Europe. The role of this country should consist of friendly aid . . . and of later support. . . . The programme should be a joint one, agreed by a number of, if not all, European nations."

That Europe constitutes a group of nations whose misery is due to want of organisation and can only be cured by mutually agreed co-operation, implies an outlook fundamentally irreconcilable with the whole policy of keeping the world

broken up into small non-co-operating units by the rule of non-discrimination. It throws overboard the conception of making everything easy for immediate American export expansion in favour of one which looks to European self-help, to be supplemented by America only to the extent to which that self-help is temporarily incapable of meeting the most urgent needs. It, in effect, asks Europe to produce, not a collective begging letter or shopping list, but a plan of reorganisation. Such a plan is stultified from the outset if every arrangement for mutual trade is to be liable to be dislocated by the requirement of price "non-discrimination", and if no quantitative restrictions on imports of any kind are possible unless imposed simultaneously by the European nations on each other. For the moment the incompatibility of the two aspects of American policy may not be fully realised across the Atlantic, or may be veiled by the wholly unpractical suggestion that they can be reconciled by the establishment, in the near future, of a European customs union. So, too, on this side of the Atlantic the fear of giving offence to America has kept all suggestion of "discriminatory" arrangements out of the discussions, at any rate pending the consideration of a customs union by a study group.

Mr. Marshall's suggestion that it was for Europe to take the initiative was seized on with commendable promptitude by Mr. Bevin, who flew to Paris on June 17th to sound the French government, and together with M. Bidault issued an invitation next day to M. Molotov, who met them in Paris on June 27th. Beginning in a conciliatory spirit M. Molotov suddenly changed his attitude, presumably on orders from Moscow, and made it plain that Russia would have nothing to do with any concerted plan that went beyond a mere "shopping list" on the ground that it would be an "infringement of national sovereignty". On July 2nd he left the Conference, warning the British and French governments that their plan, if persisted in, would divide Europe. The Soviet satellites were forbidden to take part and this veto was even extended to Czechoslovakia which had originally accepted and which was an active participant in the Geneva discussions. This enormously simplified the despatch of business, and the Conference

in a very few days agreed upon the appointment of an expert committee representing sixteen nations which, under the chairmanship of Sir Oliver Franks, set to work early in July.

By September 10th a draft report was ready. But Mr. Clayton and his American colleagues felt not only that it asked for far too much, but that it was not calculated to make sufficient appeal to the imagination of the American public and, in particular, that it was still too much of a shopping list and did not indicate a sufficiently active interest in the ideal of European unification. So the Committee set to work again and hurriedly dished up a revised version. This was made public on September 22nd and Mr. Clayton, taking good care not to commit Congress, gave it a modest measure of personal approval. The Report (see Appendix G) was, inevitably, still in the main a "list of requirements". Far-reaching measures of organic reconstruction of the European economy could obviously not be seriously initiated in the time available, or by experts, and without raising profound issues of political relationships. Nor could they, in fact, have made any great contribution to the next four years, the period for which American help is most urgently needed.

The operative part of the Report begins with the targets of extra production which the nations of Western Europe, including Britain, are to aim at attaining over the next four years. Of these the first and most essential are in the domain of food production. Here the objectives stated are the restoration of pre-war cereal production, a large increase over pre-war in sugar and potatoes, some increase in fats and such expansion of livestock as feeding-stuffs supplies will allow. Next comes coal, the target for which is set at 584 million tons, i.e. 145 million tons above the 1947 output and 32 million tons above 1938. The United Kingdom output is fixed at 249 million tons, i.e. 50 million tons above the estimated 1947 output, but only 18 million tons above 1938. Of this Britain hopes to export 6 million tons in 1948 and 29 million tons in 1951. Electricity output is to be increased 40 per cent above 1947, and an international plan for six hydro-electric plants in the Alps, two lignite plants in Germany and one geothermal plant in Italy are to be examined. Steel output is to be raised

from 30.3 million tons in 1947 to 55.4 million tons, as compared with 45.5 in 1938 and 54.7 in the best pre-war year. Of this total Britain is to contribute 15 million tons, as against 12.7 in 1947 and the Anglo-American zone of Germany 10 millions, as against 17.8 in 1938 and 2.8 in the present year. Inland transport is to be expanded to carry a 25 per cent greater load than in 1938 and merchant shipping is to be restored to pre-war level.

So far as internal financial and monetary stability is concerned, a point on which the United States had laid great stress, the Report, in Appendix E, dealt with the need for greater transferability of currencies. For the rest it only says that all the Governments concerned were pledged to achieve stability, but that "the painful process of checking inflation would be greatly assisted by the injection of external resources", and estimated that something like $3,000 millions would be required to meet the situation. What the Report could hardly have been expected to say was that the combination in most European countries of a Socialist economy of open or concealed inflation, combined with a regime of controls ineffective to counteract its consequences, has itself been a cause of stagnation and frustration and a serious factor in retarding the recovery of productive power.

When it came to co-operation the Report could only say that the Governments concerned pledged themselves to abolish, as soon as possible, abnormal restrictions on trade and to aim at "a sound and balanced multilateral trading system", both steps depending largely on Europe's ability to sell to the American continent. A study group had been formed to consider a "customs union to be achieved by progressive stages[1] over a period of years." Meanwhile France and Italy had declared their readiness to negotiate customs unions with nations "capable of being combined with the French economy in such a way as to make a stable unit", while Greece and Turkey also undertook to consider a regional customs union between their two "neighbouring and

[1] This would hardly be possible under the strict limitations on the formation of customs unions laid down in Article 42 of the Geneva Draft Report (*see page* 158).

friendly countries". But there was no suggestion of the creation of a supernational reconstruction agency or of a single dollar pool. All that the sixteen nations were prepared —under strong American pressure—to declare themselves ready to do was to set up by mutual agreement a temporary international agency to "review progress and make periodical reports on the extent to which the programme is being realised." As practical instalments, however, of co-operative effort the Report listed the international scheme for the expansion of electric power, a European freight car pool, the standardisation of types of equipment and the exchange of information on steel programmes.

In contrast with this unavoidably meagre instalment of European co-operation was the size of the shopping list and of the dollars required to meet it. Originally estimated at $29,000 million it was finally reduced to $22,440 millions, largely by bringing into the picture an expected European export drive to the American continent. Including $3,130 millions to be financed by the International Bank, this left $19,130 millions to be met by Congress over four years, $7,120 millions of it in the first year and $2,800 millions in 1951. Even this figure assumed an average 10 per cent fall in import prices over the years 1949–51 which the magnitude of the European demand may very possibly prevent being realised. As the required imports are from the whole Western Hemisphere it means that Congress would, in fact, be expected to finance nearly $6,000 millions of European imports from Canada and South America.

Consideration of these vast proposals was taken up by the United States Administration and by committees of Congress with remarkable promptitude and in a broad and generous spirit which has regarded Europe's escape from sheer economic disaster as both an economic and a political interest of the United States. Congress was convened to meet on November 17th in interim session and the Republican majority intimated that they would leave the field clear for the Administration's proposals for aid to Europe to have priority. Meanwhile the Herter Congressional Committee, embodying the conclusions of the large number of members

of Congress who have recently visited Europe, definitely recommended that aid was necessary. The Nourse Committee, appointed by the President, reported that aid on the kind of scale envisaged was within the economic capacity of the United States. On November 9th the Harriman Committee issued its report on the proposals of the Paris Committee—a piece of work no less promptly and exhaustively carried out than that report itself. The Harriman Report frankly started by justifying the substantial burdens that European aid would involve by emphasising the strategic and political, as well as the economic, interest of the United States in maintaining the democratic tradition and concept in Europe and in not allowing it to fall through misery and chaos into Communist hands. It made clear, however, that aid should not be conditional on the political methods followed by European countries "so long as they are consistent with basic democratic principles", but only on a real effort at self-help. It stressed the urgent need for combating inflation and so securing the monetary stability essential to the resumption of normal industrial activity, and suggested the desirability of some exchange revaluation. In this same connexion it concluded that the Paris estimates for capital expansion were "not wholly realistic" and were beyond what could be prudently afforded at the moment.

On the basis of these general considerations the Report suggested that a total of somewhere between $12,000 millions and $17,000 millions, according to the availability of supplies and the level of prices, might be required over four years from the United States Treasury; but it considered that the whole question would have to be considered from year to year. For the calendar year 1948 it estimated the figure required at $5,750 millions, as against the Paris request for $7,250 millions. It assumed, however, that larger amounts than those in the Paris report might be secured from the International Bank (whose capital, it suggested, should be enlarged by the United States) and from private finance. It also added that, while, in its own interest, the United States would probably have to supply funds to cover part of the European deficit with other American countries it should

not have to finance it in full. Three methods of financing were suggested. Food, fuel and fertiliser—in the first year three-fifths of the whole programme—should be provided by grants in aid except for countries able to pay. Raw material, and agricultural machinery should be financed by a new diversion of the Export-Import Bank. Industrial equipment should be furnished through the International Bank. The local currencies thus secured by the governments concerned from their citizens should, in the case of grants in aid, be devoted to anti-inflationary or productive purposes; in the case of raw materials set aside and used later to buy strategic raw materials for stockpiling in the United States. A new independent governmental corporation should be set up with a chief representative in Europe to deal with a continuing committee to be set up by the countries participating in the scheme.

On November 10th Mr. Marshall presented his own statement to a joint session of the foreign affairs committees of both Houses. His figures, based on the same data as those used by the Harriman Committee, but worked out independently, were somewhat higher for the four years viz., $16,000–$20,000 millions, but he equally deprecated any attempt at any appropriation ahead. His immediate estimate was based, first on a sum of $597 millions to keep France, Italy and Austria going to the end of March. Secondly on a sum of $1,500 millions for Europe as a whole for the three months from April 1st to June 30th, 1948, and a further $6,000 millions for the United States fiscal year beginning on July 1st, 1948. This is very much the same figure as that of the Harriman Report, but carried forward another three months. The local currencies secured under the emergency aid to be deposited in a special fund to be used for such purposes as may be agreed between the United States and the recipient country—a provision which, it is understood, is also to be included in the longer term programme. As regards administration Mr. Marshall insisted on the utmost flexibility, on making use of existing Government agencies and on the appointment of a special representative to handle things at the European end.

Details of the aid to be given, whether by grant or by loan, are, apparently, to be negotiated in a series of bilateral agreements with the countries concerned and not through the joint organisation created in Paris. There is no question of handing out dollars to each Government to use as it thinks best. Those who accept American help will have to give satisfactory undertakings as to their financial and monetary policy and "other methods" of stabilising costs and prices. They are apparently also to be expected to "co-operate in reducing trade barriers". If this means a further clamping down on all concerned of the policy of non-discrimination and of the terms of the Geneva Report it is bound to run counter to the whole conception of a Europe learning to rely on its own resources and to convert aid to recovery into a mere continuance of relief. The matter is now in the hands of Congress which, however sympathetic to the general purpose of the Administration, is entirely independent and is bound to be influenced by many internal political and economic considerations, not all of them necessarily relevant to the merits of the case. The amounts asked for are colossal, even by American standards, and are bound to involve sacrifices both by taxpayers and consumers even if they also contribute to the momentum of the American export drive. The danger, indeed, to the whole price situation led President Truman on November 17th to ask for drastic measures largely reversing recent decontrol and derationing.

The strongest influence, indeed, with Congress, may be the fear of a starving Europe turning Communist coupled with the appeal which human suffering always makes to the generous heart of the American public. It is this last influence, indeed, which, in view of imminent collapse in France, Italy and Austria, will, no doubt, secure a prompt granting of the proposed measure of immediate relief without prejudice to a more searching scrutiny of the major proposals of the Report. Britain, in view of the fact that we still have a substantial gold reserve, is obviously not to participate in any emergency assistance, except to the extent that the last £100 millions of the Loan has now been unfrozen by mutual agreement, and that the United States will be taking over

our major economic liability for feeding and supplying Germany.

Meanwhile the Marshall initiative has opened up much wider issues than those involved in immediate assistance to Europe. There is, to begin with, the question, discussed in Appendix B, of the extent to which German industrial recovery is to be encouraged, as a contribution to the European economy as a whole, without reviving the danger of renewed German aggression. Here the Paris Report could only make tentative suggestions. Even the 10 million tons steel target for Germany—little more than half her pre-war production—was suggested subject to subsequent decision by the Council of Foreign Ministers. On this point the Harriman Report comes down definitely in favour of greater assistance to Germany, emphasising that the revival of the Ruhr coal output is "the crux of the problem of getting Western Europe back on its feet". Nor could the Paris Report deal adequately with the problem of the relation of Eastern to Western Europe beyond assuming that by 1951 Western Europe would draw as many cereals from Eastern Europe as before the war. Europe west of Russia is essentially an economic unit in which the agricultural surplus of the eastern half naturally balances the industrial surplus of the western half. But it is almost certain that the American policy of attempting to force Western Europe into its own pattern will increase the determination of the Communist leaders concerned to incorporate all the territory within the "iron curtain" more closely in the Russian system and to reduce exports to what is essential to securing such capital equipment as Russia is unable to supply for herself or for her satellites.

Even more important, so far as we are concerned, is the issue of our respective positions as a European nation and as a member of the British Commonwealth. That we should have taken the initiative in convening the Western European nations and participated in the subsequent decisions was as right as it was inevitable. But our economic position differs very considerably from that of the continental nations. Our normal trade with Western Europe is largely competitive in manufactures or an exchange of non-essentials. From the

point of view of the trade which sustains our industries and feeds our population with the purchase of essential food-stuffs and raw materials by the export of manufactures, its real importance is nothing like that 25 per cent of our trade to which Mr. Bevin alluded as ruling out our inclusion in a European customs union as an adequate solution of our problem. Trade with the rest of the Commonwealth and Empire is, on the other hand, to the extent of 80 per cent and more, essentially complementary and of infinitely greater importance to us, both in the present immediate crisis and still more in the future, in so far as we are dealing with countries still susceptible of almost indefinite development.

The dilemma of choosing between an Empire and a European policy is, in fact, an entirely unreal one. It only arises from the American veto on all economic co-operation that does not go to the length of an actual customs union, and even on any approach to such a union by progressive stages. Customs unions are, as I have already pointed out, extremely difficult to bring about on any wide scale apart from a corresponding political federation. In any case they are mutually exclusive. We could only enter a European customs union at the cost of sacrificing the prospect of the far more important development of Empire co-operation. On the other hand, a system of preferences or priorities is in no sense exclusive. Canada is part of the British preferential system. But she has also developed—some may think to a dangerously unbalanced extent—her virtually preferential arrangements with the United States. Britain could always develop special arrangements with her European neighbours, whether as second preferences or in regard to special lines of trade, without prejudice to a policy of Empire development. So, too, the nations of Eastern Europe might presently join in a European preferential group without prejudice to their still enjoying special trade relations with Russia.

These considerations would appear to have dawned by degrees upon the British Government and to have increasingly created misgivings in their mind as to the wisdom of the policy to which they had committed themselves in accepting the Loan and which they had continued to support at Geneva.

The first public intimation of this was given by Mr. Harold Wilson, then Secretary of Overseas Trade, at the closing session of the Geneva Conference on the Trade Charter. In effect he poured cold water on the whole scheme, relegating its fulfilment to an uncertain future. Meanwhile the British Government would find it "necessary and desirable to have even closer economic co-operation with the other countries of the Commonwealth", and would have to "make agreements with particular countries". If these methods "might appear to be opposed to the principles and methods of the draft charter" this was, however, only to "meet short term and urgent problems" and was not intended "to establish permanently artificial channels of trade which would in the long run defeat the principles of the charter."

A few days later, on September 4th, Mr. Bevin, addressing the Trade Union Conference at Southport, confessed that his reluctant acceptance of the American Loan conditions had been a mistake. After dismissing a European customs union as a solution of our problems he went on, speaking "very seriously and purely on my own responsibility, and not for the Cabinet", to urge the inauguration of a second study, that of "the possibility of a customs union for the British Commonwealth and Empire" and to express the hope that the "Commonwealth and certainly the Empire" would agree upon that possibility. Whether Mr. Bevin used the expression customs union designedly, in order to avoid premature controversy with the United States, or merely in ignorance of all the practical difficulties involved even in relation to the Colonial Empire, is not clear.[1] Such initial misunderstanding as the phrase created in the Dominions is not likely to preclude a serious examination of the whole problem of co-operation if the British Government really meant business.

Mr. Bevin's initiative would seem to have been tentatively endorsed by the Cabinet, for on September 17th Sir Stafford

[1] Our colonial system, unlike the French or American, has always given great latitude in tariff matters to local legislatures which, in the more important colonies, might require considerable persuasion to abandon their fiscal autonomy. In any case we are precluded by the Congo Basin Treaties from a customs union with most of our African colonies and can only give and not receive preference in our trade with them.

Cripps, after dismissing multilateral trade on Geneva lines to an uncertain future and asserting "the necessity of bilateralism and a reliance on sterling" in the interval, went on to touch in the following terms on the question of an Empire customs union:

> "It has been suggested that the best thing would be to bring about a strong British Customs union of ourselves, the rest of the Commonwealth, and the Colonies. This might have many advantages, but it is an accomplishment fraught with difficulties and it must take time to explore its possibilities. That exploration is being undertaken now, but in the meantime we cannot completely alter our special economic relationship with the rest of the Commonwealth and Empire, which might in itself prove to be a step in the direction of a closer Customs Union."

In the same speech, with obvious reference to the deadlock over the tariff discussions, he had said that "no one can expect any spectacular reductions of tariffs and preferences at this particular time". He did not explain how the existing preferential arrangements, cut down still further by the Geneva negotiations, could prove a step in the direction of a closer customs union. Nor did so "facing both ways" a statement get over the fundamental difficulty that a policy of Empire co-operation and development can only succeed if it is conceived as a permanent policy. The provision of public capital for the opening up of new lands, for railways and irrigation works, of private capital for the equipment of new agricultural or mining enterprises and the redistribution of manpower by jointly sponsored migration schemes, are only possible on a long term basis. There will be little business doing with the Dominions if they are to be told that we only want to make use of them as a temporary makeshift.

It is difficult to resist the conclusion that our rulers do not know where they stand or in what direction they mean to go. They are at present trying to straddle between an Empire policy which they would like to carry out and the American policy to which they committed themselves two years ago,

to which they have since helped to give more detailed shape at Geneva and which they are now bound at least to pretend to endorse at Havana. But the two policies are directly opposed. The American policy is calculated both to make all recovery impossible for us and to reduce the British Empire to economic and political dependence on the United States. There is no way out of our difficulties except by a direct assertion of our determination to pursue our own policy as a country and as an Empire. We have done our best to fulfil our pledges in connexion with the Loan, and are now entitled to make it clear that, while we shall, at whatever cost, repay the Loan itself, the conditions so unfairly tied to it, and so foolishly accepted, are unfulfillable.

CHAPTER XIII

THE WAY OUT

How can we save ourselves? By what emergency measures can we keep our heads above water and escape near-starvation and mass unemployment over the next two or three years? By what long-term policy can we reverse the long continued downward trend of our competitive position, maintain and eventually raise our present standard of living and restore the vitality and volume of our national production?

Failure to find the right way out of the crisis means that we shall inevitably sink down to the level of a second-class economic power with a population reduced by mass emigration and misery. With that decline would vanish our position, not only as a world power, but as the leading partner in the Commonwealth whose members would inevitably gravitate elsewhere. On the other hand if we do now find the right way out—and it is there if we will but take it—there is no reason why this old, but still at heart ever young country should not take on a new and increasingly prosperous lease of life, or why the British Commonwealth and Empire, developed and strengthened by effective free co-operation, should not again assert its rightful leadership in the world.

One thing at least is certain. We cannot solve either our short term or our long term problem without a striking increase in our general productive efficiency. Unless we can produce enough of the goods which the world wants, of good quality and at reasonable prices, no amount of direction of labour and materials to the exporting industries will secure our immediate urgent requirements. Nor can we build up assured markets for the future, in the Empire or outside, by mutual co-operation and negotiation, unless we can give value commensurate with the value of the goods we receive. This is not a theme which I can develop in a book primarily devoted to the issues of public policy. Enough to

say that if we are lacking in efficiency to-day in many directions it is not for want of scientific or technical ability in our managerial class or for want of industrial skill on the part of our manual workers. The country that could perfect Radar, plan and execute Mulberry and Pluto, invent the jet plane and the Bailey Bridge, is not lacking either in imaginative vision or practical capacity. Nor has British craftsmanship failed in any of the tasks called for by the needs of war production.

What seems to be lacking is precisely that sense of national emergency which the war evoked. The doctrine of short-sighted immediate self-interest, first preached in the interest of the capitalist employer and then, by reaction, in that of the employed class, is to-day proving as destructive of the very means of our existence as a nation as it once threatened all human values in the lives of the masses of our people. Only a new spirit, the spirit of co-operation, stirred by a sense of a common danger and a common hope, will give to employers a true and sympathetic understanding of the needs and outlook of their workers and to those workers an interest in the social and national value of their work. There can be no more foolish or disastrous notion than that only those who work in a state-owned industry are working for the nation. Everyone who does good work, in whatever capacity, is a public servant. Everyone who does bad work, whoever his employer, is a profiteer at the public expense.

To return to the field of national policy. As I have pointed out earlier, such efforts as the Government have made to stimulate the export trade in order to enable us to pay our way when the loan ran out were directly negatived by their financial and social policy in other directions. Nor is there anything to suggest that this incoherence in our affairs would not have continued up to the very eve of the borrowed dollars being exhausted, whatever the date. Be that as it may, the running out of the Loan seems to have taken Ministers completely by surprise and with no policy worked out in anticipation of a situation which was clearly bound to come in 1948 if not in 1947. As late as the beginning of July 1947 both Mr. Dalton and Mr. Morrison deprecated any idea of a cut in the total import programme. By August 6th, however, some

action to cope with the imminent crisis could no longer be evaded. On that day Mr. Attlee announced the first emergency programme.

The most important item in the programme was to be an extra half-hour's work a day by coal miners in the hope of securing a weekly output of 4,000,000 tons for the next six months. Agreement on this was reached between the Coal Board and the miners by the end of September on a flexible basis allowing for local conditions and preferences. Since then the minimum weekly wage has been raised by 15*s.* for underground workers and 10*s.* for surface workers, involving another 1*s.* 6*d.* a ton on the price. More important and hopeful, production in the first week of November reached 4,250,000 tons. The target for agriculture was to rise by an extra £100 millions of food, i.e. back to the 1945 level, by 1951. The steel target for 1948 was set at 14 million tons—a figure which there is every prospect of being reached by an industry which, according to Sir S. Cripps, is doing a "magnificent job". The general export target of 160 per cent of 1938 was postponed from the middle to the end of 1948. There was to be a cut of £144 millions a year in food purchases from hard currency countries, a 75 per cent cut in the remittances on foreign films and a cut of £10 millions in imported timber. The motorists' basic petrol ration was to be reduced by 33⅓ per cent. It was subsequently abolished altogether and then in large part restored owing to the inevitable necessity of making all sorts of exceptions. The allowance for travel outside the sterling area was cut down to £35 and shortly afterwards abolished altogether. Twenty millions were to be saved by reductions in the services. This has since been hurriedly increased to £100 millions, with little serious consideration, it is to be feared, of our defence needs, or for the position of the Dominions. A Bill was rushed through Parliament professedly extending the purposes of existing legislation permitting of the direction of labour.

On September 12th, Sir Stafford Cripps followed up this programme of retrenchment by pointing out that if it saved £228 millions out of a deficit of £600 millions there remained a gap of £372 millions to be closed by increased exports.

Even this increase of £31 millions a month, or of 33 per cent above present figures, would only bring the total for the opening months of 1948 up to 140 per cent of 1938 figures. This would just balance on the basis of the reduced standard of living announced in August. This concentration of production on export was to be achieved primarily by allocation of materials. Export industries which failed to sell their goods abroad would not be allowed to divert them to the home market, but their materials and labour would be taken away from them and reallocated elsewhere. The urgency of the export drive was such that some £50 or £60 millions of capital goods intended for home use would have to be exported—a most regrettable step from the long term point of view. This programme, Sir S. Cripps explained on October 23rd, while aimed at securing a balance of total overseas payments by the end of 1948 would still leave a dollar deficit of £475 millions for the calendar year 1948. To meet this he proposed to secure a dollar saving of over £200 millions by various devices. These included a further £66 millions cut in food imports, bringing the calory level down from 2,870 to 2,700 a day, compared with 3,000 pre-war; by cuts in raw material and timber imports to the tune of £55 millions; by a complete stoppage of tobacco purchases from America; by a cut of £10 millions in the imports of American manufactures; by a further £10 millions saving in military expenditure; by an increase in dollar exports of some £45 millions. This programme, *if realised*, will still leave us at the end of 1948 with the gold and dollar reserve of the whole sterling area reduced to £270 millions—an absolute minimum—and with a dollar deficit running at the rate of £250 millions a year. To meet this, Sir Stafford looked first to the urgent increase of home food production which is now, at last, to receive priority as regards houses for agricultural workers and steel for farm implements. Secondly to the developments of the resources of the sterling area, and more particularly of the Colonies, and to bilateral trade agreements. Steel production to be stepped up by two or three million tons beyond the immediate target of 14,000,000 tons. Capital construction to be cut down, as a first step, by £200 millions a year, equivalent to a reduction

of £300 millions in the investment rate;[1] the 260,000 permanent houses now under construction and 80,000 already contracted for to be completed, leaving building to balance at a rate of 140,000 a year by the middle of 1949.

In September the Minister of Labour issued a Control of Engagements Order under the new Act to come into force in October. Under it employers must obtain their labour, and workers their employment, through a Ministry of Labour Office or an approved employment agency. The Order is thus, in effect, one for the direction of those seeking or directed to seek, employment for the first time or temporarily unemployed. It applies to all men between 18 and 50 and women between 18 and 40, always excepting those employed in a managerial or professional, administrative or executive capacity and mothers with children under 15 living with them. It was explained that it was intended to apply the Order considerately. Employment will be offered, so far as possible, within daily travelling distance, and men with family responsibilities, if directed away from home, will receive cost of living allowances. There will be a right of appeal to a local appeal board against any decision to direct a worker. Persons directed to an industry who object to joining the appropriate trade union or whose refusal to join might give rise to an industrial dispute are to be directed elsewhere, a provision facilitating almost indefinite delay or evasion. A further Order was issued on November 11th, for the registration of all unemployed persons within the ambit of the first Order, and for street traders and the employees of betting and gambling pools and night clubs. The object of this order is to catch the idle unemployed, gambling touts, black marketeers and other such "eels and butterflies".

It is difficult to believe that powers of such limited scope will make any very appreciable effect on the situation. Even more drastic powers of direction may fall far short of what,

[1] In a White Paper issued on December 1st the £200 millions is reduced to £180 millions leaving a total capital investment for 1948 of £1,420 millions, this figure to be subsequently reduced to £1,320 millions. This includes a reduction in the provision for Plant, Machinery and Vehicles from a mid-1947 rate of £610 millions to £525 millions, in itself a serious set-back to recovery.

at first sight, they might seem to achieve. The fact is that mechanical allocation and direction, however simple to decree, are by no means easy or expeditious of execution, at least in peace and without the alternative of military conscription, with the possibility of wounds or sudden death in prospect, or of Siberia. They can never take sufficient account of individual circumstances, and in practice the correspondence, protests and appeals pile up and result in the maximum of delay, friction and frustration. Economic incentive and disincentive, on the other hand, while apparently less directly coercive are, in practice, not only more flexible but exercise their influence all the time over the whole field of production and consumption. Their pressure, like that of the atmosphere, is continuous and pervasive, while at the same time elastic and adjusted to the circumstances of each particular case. Incentive is by no means "bunk", to use Mr. Herbert Morrison's elegant phrase; coercion is apt to be held up all the time by the bunkers and bottlenecks of its own creation.

So serious is our present situation that some direct coercive measures of allocation and direction may be inevitable. But they can only be effective if they are conceived as a temporary supplement, and not as a substitute, for a policy of control and guidance by incentive. So far the present Government's policy has been one in which the indirect inducements have all worked in opposition to the avowed object of concentration on the export trade. To reverse that trend will not be easy. The scale of the task is in itself tremendous. There is at present an admitted excess of purchasing power over consumable goods roughly estimated at £1,000 millions, due to the interaction of high wages, subsidised food prices, excessive capital expenditure on projects which, however desirable in themselves, are not immediately productive, and artificially low interest rates. The inflationary pressure of this would, of course, have been much more severe but for the consumable goods secured by the borrowed dollars. Closing the £600 million deficit in our balance of payments by reducing imports and diverting production to export must obviously increase correspondingly the inflationary gap which, pending a rapid increase in productivity, can hardly be less than £1,250 millions and may well be nearer £1,500 millions.

Towards this future Sir S. Cripps has already proposed the cut of £300 millions a year in capital investment referred to above. On November 12th Mr. Dalton introduced a supplementary Budget embodying a doubling of the profits tax to 25 per cent on distributed and 10 per cent on undistributed profits, fairly substantial increases in existing purchase taxes, an increase of 1*d.* a pint on beer and heavier increases on other alcoholic liquors, and a ten per cent tax on football pool stakes and totalisator bets on dog tracks. These, together with the discontinuance of the subsidies on leather, cotton and wool, now costing £22 millions, are to bring in £208 millions in a full year and £48 millions for the remaining four and a half months of the financial year. These timid half measures are obviously quite inadequate to cope with a situation which needs—and may now find—a Chancellor of the Exchequer as fearless of unpopularity as Philip Snowden. For to be of any effect they must be directed against the two main sources of inflation, the expenditure of the great mass of the population and the expenditure of the Government itself on non-productive projects and non-productive personnel. Pending such further measures as Sir S. Cripps, who has just succeeded Mr. Dalton, may be in a position to put forward, one can but suggest the more obvious steps that should be taken.

To begin with Government expenditure. There has been no indication, so far, of that complete recasting of our military system which conscription has made possible as between a highly expert mechanised and airborne career service oversea Army and a short-service militia only intended for expansion in a great emergency. The use of immature boys for garrison and occupation purposes is as inefficient for its immediate object as it is wasteful of money and manpower. There should be room for really substantial economies without prejudice to the maintenance of an effective system of Imperial Defence co-ordinated with our partners in the Commonwealth. The vastly swollen army of civil servants[1] should

[1] In 1929 there were 408,000 non-industrial civil servants as against 1,011,000 to-day and 846,000 in Local Government service as against 1,047,000 to-day, a diversion of some 800,000 persons from productive work.

be capable of a corresponding reduction, largely by the elimination of all but the most indispensable controls and by allowing the stimulating forces of demand and supply to replace the paralysing influence of endless bureaucratic correspondence and the fear, or evasion, of innumerable regulations. The whole Government and municipal programme of public works and buildings, however desirable in itself, should be severely pruned for the time being.

One of the most serious inflationary items in the Government expenditure are the £333 millions spent on indiscriminate subsidies on food which Mr. Dalton refused to touch. There may well be a case, with rising prices, for matching their progressive drastic reduction by special increases in respect of family allowances, old-age pensions and unemployment benefit. But over a large part of the field these subsidies are in effect subsidies to every kind of unessential expenditure and a direct diversion of the national energies from the vital business of paying our way in the world. It is, of course, the subsidising of consumption, as such, which is inflationary. The subsidising of production, on the contrary, is counter-inflationary if the increased production exceeds the amount of the subsidy. It may well be found necessary to give much more substantial help by way of subsidy to the production of home-grown foods than the £59 millions (out of the total of £392 millions of food subsidies) at present allocated to that purpose. Such subsidy might, indeed, even be justified in the case of food imported as part of a trade agreement, with the Dominions or with foreign countries, where payment was assured in terms of British exports.

The next obvious check to inflation and disincentive to unessential production is to be found in heavy indirect taxation. In 1946 £818 millions more was spent on alcohol and tobacco alone than in 1938 and, making all allowances for heavier taxation, this still represented an increase of 25 per cent in the consumption of beer and over 30 per cent in the consumption of tobacco—the latter now somewhat reduced. Expenditure on entertainment has gone up 179 per cent since the war. The sums spent on football pools and gambling are enormous. There cannot be much less than 200,000

persons engaged whole time in the gambling industry. In all these fields it is essential to retrench, at the very least, to pre-war figures. But, over and above these elementary luxuries, the net of indirect taxation by way of purchase tax will have to be spread more widely if the necessary result is to be obtained. In all these respects Mr. Dalton's measures still fall far short of the mark. The prospect may not be pleasant, but it is better than starvation.

In an interesting pamphlet *Design for Survival* Mr. Peter Thorneycroft and Lady Rhys Williams have drawn up a sketch Budget, including a net reduction of £420 millions and an increased revenue from indirect taxation of £150 millions, very much on the lines suggested above. Taking their courage in their hands they have also suggested a simultaneous reduction of the standard rate of income tax to 6*s*. 8*d*. That the present rate of direct taxation severely discourages both effort and saving can hardly be doubted. It is not only the worker who doubts whether it is worth while doing another sovereign's worth for eleven shillings. The tendency of the professional man to ease off when the extra sovereign only brings in two or three shillings is becoming increasingly marked. As for saving, with interest at 2½ per cent and no surtax, £100 saved brings in only 27*s*. 6*d*. income for the small man. For the surtax payer who pays up to four-fifths of his income £100 earned would leave £20 to be invested which, even at the standard rate and without reserve for death duties, would give him an income of 5*s*. 6*d*. a year. There is little inducement there for either type of earner to save rather than to spend or speculate. The very disquieting falling off in the National Savings Movement figures would seem to confirm this criticism. Direct taxation undoubtedly will have to be reduced. But at this moment the inflationary gap is so wide that it would seem better to ease the burden where it is most felt, i.e., by the man with a family, by a substantial increase in the married and children's allowances.

The existing system of income tax, as applied to the weekly worker through the P.A.Y.E. system, must surely have been invented in Laputa. Under this the tax is payable on the year but deducted by the week while a continuous running account

has to be kept up involving refunds when the man is unemployed or on strike, a system bewildering to the man and involving endless waste of clerical work for the employer. Surely it would be only common sense to tax the weekly wage-earner by the week on the week's earnings with a minimum of, say, two pounds untaxed and a sliding scale rising with each pound earned above the minimum. Married and children's allowances could then be paid direct through the Post Office. The saving in annoyance and misunderstanding would of itself be a substantial contribution to better relations in the factory and to increased output.

No measures to counteract inflation or to divert manpower and materials to essential purposes can succeed if they are to be at once defeated by demands for increases in wages other, of course, than increases resulting from additional production. On this point the Government would seem to have surrendered unconditionally to the Trade Union Council, and matters are to be left entirely to the free play of the opposing interests concerned even, apparently, in the case of nationalised industries where one of these interests is the Government itself. Such a policy, or absence of policy, can only add greatly to the difficulties inherent in any planned direction of labour on a large scale. For it will not be easy to compel men to leave a well-paid employment for one less well paid.

While both inducement and direct allocation of materials and transfer of labour will be necessary in order to concentrate the national productive effort on exports in the present emergency, it is essential to remember that it is only inducement that can be applied at the other end. We can allocate material to certain industries and compel workers to go to them. We can only induce foreign purchasers to take their products. What is more, unless the inducement at the other end coincides in its effect with the direction and allocation at this end the bottlenecks and waste of effort will be far worse than if we had no planned policy at all. The obvious inducements are price and quality. To lower the quality of our exports would be a fatal error. But quality alone without reasonably competitive price can never secure the requisite total volume of trade. Nor will either quality or price suffice

to secure the markets which we must have unless the purchasers can pay for them by their exports.

At this point our immediate emergency measures inevitably raise the issue of permanent policy. It will be clear from the survey of the progressive deterioration of our export position in earlier chapters that our competitive strength in terms of price is very different from what it was in the last century. There is undoubtedly great room for improvement in methods; for better lay-out in our factories, more payment by results, a more active spirit of co-operation between both sides in industry, more adaptable and enterprising salesmanship. But, given all that, we shall still be relatively high cost producers. Even when the highest technical efficiency is secured our high wage standards and the tremendous overheads of our national, municipal and social services taxation, constituting in effect a heavy veiled excise on British production, will leave us at a disadvantage compared with equally well-equipped competitors working on lower standards, or with the surplus of America's immense mass production. That will not prevent certain types of British goods always finding their market in virtue of their quality. But that is not enough. Only a sufficient total volume of exports will enable us to sustain the existence of our precariously balanced economic life.

But that very unbalance, together with our high standard of living, makes this country the world's finest import market both for raw materials and for foodstuffs. That is a wonderful bargaining asset, if we are free to make use of it. For it enables us to give to other countries an assured market for their produce in return for their assuring a market for our exports, in other words taking payment in our goods rather than in currency to be spent elsewhere. No such assurance, as regards either price or duration, is possible under the system of promiscuous non-discriminatory price competition which the United States are trying to force upon us and upon the world. By accepting that system we throw away our one trump card. There can be no real recovery unless we retain it. One way or another we must make it clear to the United States that the commitments which we rashly undertook in connexion with the Loan and have again in large measure endorsed at Geneva

are unfulfillable. We shall, in fact, very soon find ourselves back at a position in which we shall be compelled to jettison all mid-Victorian conceptions of holding our own on the basis of mere price competition, and to revert to the historic policy of national power and policy economics by which our prosperity was originally built up. Whether we actually conduct our trade through individuals or through the state we shall only be able to keep in existence by unreservedly using the controlling and bargaining power of the state in order to protect our standard of life and pay our way in the world.

Such a policy can, no doubt, be carried out by direct state action. The state can set up import and export agencies and control the whole of our external trade. With this power in its hand it can make bargains and long-term contracts with other states. It can also regulate our trade by fixed import and export quotas and by discriminatory control of the foreign exchanges. All these methods involve the risk of heavy national losses through miscalculation as well as of international friction. Above all they mean that all economic activity is subject to bureaucratic control, that nothing can be done without the paralysing delay of waiting for permits and licences, and without the risk of favouritism and corruption. All the same, unless a better alternative is put forward and preached with conviction and vigour, that is the course to which this country will inevitably be driven. Socialism is preferable to starvation.

The alternative to direct state action is to be found in indirect guidance and control through inducements and discouragements of a general character. The most typical forms of such indirect guidance are import duties and export bounties affecting external trade, excise duties and purchase taxes aimed at restricting domestic consumption. The great merit of this method is its flexibility. Duties or subsidies can be raised or lowered to the point at which the desired result is achieved. They can be varied as between different countries of origin or destination, whether within the Empire or outside, once we get rid of non-discrimination. They involve the minimum of bureaucratic machinery. Above all they still leave to the individual complete freedom of action.

A duty, for instance, is simply one of the factors which a purchaser takes into account. In nine cases out of ten it may turn his purchase in the nationally desired direction. In the tenth there may be very good individual reasons for his buying the dutiable article and he can do so at once and without asking for anybody's permission. The method, in fact, is one which preserves freedom of trade and enterprise even if it is not free trade in the conventional sense.

There are three main lines on which such a policy of general economic direction will have to be worked out: the control of the home market, the extension of Empire Preference and the development of trade treaties with foreign countries. The first step towards economic recovery will be to make sure that the credits earned by our exports are strictly conserved for their primary purpose, that of purchasing essential raw materials and such foodstuffs as we cannot produce ourselves. That means a drastic cutting down, by substantially higher duties than before the war, of our imports of foreign manufactures (£180 millions in 1938), except in those cases where a relaxation of duty is justified by an agreement which assures at least an equivalent, not merely in terms of export values, but of domestic productive power and stable employment. It means a carefully selective policy, guided by our preferential and treaty arrangements, in discriminating, even in respect of the more desirable imports, in favour of those from countries which assure equivalent reciprocal exports of the most desired type. It means, not least, a policy of wholehearted protection of British agriculture, with the object of reducing our imports by at least £100 millions. In this case simple duties cannot cover more than a part of the ground, and will have to be supplemented by subsidies in one form or another, or by actual quantitative restriction.

When it comes to Empire Preference we must face the fact that Empire countries will become more and more self-supporting in many of the main branches of secondary industry, and that we shall have to rely increasingly on specialised and quality exports. If these countries are to remain static Empire trade will tend to shrink rather than to expand. That danger can only be averted in two ways. One

is to ensure the continued growth and development of the Empire countries by buying their produce; in other words, by giving them more effective preference in our market. The other is to secure for ourselves a larger proportion of their import trade by securing from them, in return, a more effective preference for our exports. A high degree of preference on a smaller import total may be worth far more to us—and to Empire countries—than a small preference on a larger total. The point is one of special importance for Empire countries as well as for ourselves. For an effective policy of agricultural protection in this country will naturally diminish our total importation of food-stuffs, though still leaving enough margin for a substantial expansion of imports from the Empire if the preferences are adequate. In this connection it is essential to keep in mind that the Dominions, at any rate, are, like ourselves, relatively high cost producers with very rich consumers' markets. Their interest in mutual bargains, as against a policy of "non-discrimination", is the same as ours.

Except as regards sugar, where we give a slightly larger, but still by no means sufficient, preference to Colonial than to Dominion sugar, our practice hitherto has been to treat all parts of the Empire alike, both as regards free entry of their produce and as regards the extent of preference given over foreign competitors. There is no reason why we should continue a practice which is not conducive to the effective extension of preference and which is not pursued by the Dominions themselves in relation to us or to each other. The best course would seem to be that of the conditional Most Favoured Nation Clause, i.e. to make individual preferential treaties with Empire countries and to extend their benefits in full only to those other Empire countries which give us reasonably comparable advantages. So, too, there is no reason why, consistently with the effective development of preference, we should not afford some measure of protection, not only to our agriculture, but also, in some cases, to our industries against Empire competition.

Preferential duties or preferential mutual purchase arrangements are, of course, far from covering the whole field of an

economic policy of co-operation for mutual development. Much, indeed, has been achieved already in that direction in the Colonial Empire by the encouragement of private investment and enterprise, including the enterprise of the natives themselves. The Malayan rubber industry, the Northern Rhodesian copper industry, West African oil products and cocoa, Uganda cotton, are only examples of a process which must always play a large and probably the largest part in Colonial development. The total capital in these undertakings amounts to at least £400 millions, a figure to be kept in mind when exaggerated claims are made for the new policy of state-controlled colonial development. There is, undoubtedly, room for direct governmentally financed development schemes both in the Colonies and in the Dominions. It will be of no little interest to follow the progress of such schemes as the East African ground nuts scheme inaugurated by the present Government as well as the expenditure of £12 millions a year on general assistance to Colonial development settled in the time of their predecessors, or the latest scheme, for a £100 million Colonial Development Corporation and a £50 million Overseas Food Corporation. But there are obvious dangers when the Government is both trustee for native welfare and also directly interested in pushing dollar earning export crops, possibly at the expense of native food crops or of the diversification of production. In any case it must be repeated that an essential condition for the success of these schemes is a reasonably assured market, in other words, discrimination in their favour.

So far as the finance of Empire Development is concerned the first essential is to re-establish confidence in sterling. A beginning has now been made in that common consultation for the maintenance of the strength of sterling by due husbandry by all concerned, which should have taken place before we committed ourselves to the conditions of the American Loan, and by the virtual re-establishment of the war-time gold and dollar pool. South Africa's loan of £80 millions of gold in return for our undertaking to purchase £12 millions a year of South African products is a splendid example of helpful

co-operation in the present crisis. But the strength of sterling rests, in the last resort, upon efficient production. It asserted itself, as against gold, in 1931 because we and the other sterling countries together discovered that between us we produced enough of what we all needed in order to enable sterling to dominate the price situation. It has been suggested that sterling is overvalued at the present parity and that we should devalue or even unfix it altogether and leave its parity to be reached by the open market. With the immediate inadequacy of our production here and in the Empire as a whole such a policy could hardly be expected to have the stimulating effect which it had in 1931, and it would be wiser to rely on more direct measures to promote our national development and our external trade. Meanwhile the wide diffusion of sterling purchasing power created by the outstanding sterling balances, so far from being regarded as a burdensome debt, may well play an important part in Empire Development if their release is judiciously planned so as to stimulate increased production and mutual trade.

The Sterling Area, unlike the Bretton Woods scheme, is a purely voluntary association and any member of it can at any time refix its rate of exchange with sterling, as Australia and New Zealand did before the 1931 crisis, or sever its link with sterling entirely. There is no reason, once confidence in sterling is re-established and the volume of sterling production sufficiently assured, why countries now outside the sterling group, in Europe or elsewhere, should not join, or in certain cases, rejoin it. One member of the British Commonwealth, indeed, namely Canada, has remained outside the Sterling Area. I have always believed this to be a great mistake from the point of view of Canada's own development. For the nature of her resources, unlimited in quantity but essentially confined to those of the Northern Temperate Zone, would afford to her far greater opportunities of expansion by balancing them through oversea trade with the tropical and sub-tropical regions of the British Empire, as well as with the consumer's market of this country, than by attempting to do so in the United States market where, both as supplier and consumer, she has to compete with the northern States of the

Union. The matter was seriously considered in 1932, at my instance, by Mr. (afterwards Viscount) Bennett's Government and is, I believe, still worthy of consideration, but only so soon as the volume of British exports to Canada can be brought into closer correspondence with Canada's exports to Britain.

Of no less primary importance to any policy of mutual Empire co-operation is the development of inter-Empire communications. Only a sufficient system of communications by sea, by air and by cable and wireless can give the necessary close contact and facilities of material interchange which the situation demands. Here is a field in which planning and support, both by Empire Governments separately and in co-operation, is urgently called for. That does not mean a system of state-owned traffic. But it does mean that the national and imperial importance of inter-Empire traffic should be recognised and that it should receive whatever support, financial or legislative, may be required to make it serve its primary purpose. The simplest method is that of direct subsidy to British passenger and cargo services by sea and air, and more particularly to those which serve Empire routes and carry Empire cargoes. A hundred millions a year spent on this vital matter would do far more for our permanent prosperity and standard of living than all the money now spent on mere consumer subsidies.

But I confess I see no reason why we should not go back to the earlier policy of the Navigation Acts or copy the American practice which reserves, as "coastal traffic", all traffic between New York and Hawaii or Alaska, by reserving for British ships, as we have already done for British aircraft, the internal traffic of the Empire in the narrower sense which covers only this country and the Colonies. Even a more comprehensive scheme for shipping preference or reservation within the Commonwealth might not be beyond the range of mutual agreement, more particularly in respect of civil aviation. The vital part our shipping has always played, and always must play, in our defence need hardly be stressed. But it is equally important that, whether for police work or for major war, our Army should be both airborne and supplied by air, and this can only be done if we can mobilise a vast

existing civilian air fleet. The development of our Empire sea and air routes will naturally carry with it, as it did in earlier days, the development of a wider world carrying trade. One way or another we must restore our ancient supremacy at sea. One way or another we must win world supremacy in the air. Both are the logical corollaries of a Commonwealth and Empire distributed over the Seven Seas.

Above all, perhaps, we need a population policy, both for this country and for the Empire. In a measure the policies I have suggested will, of themselves, contribute effectively both to the total increase and to the better distribution of our population. But they need to be supplemented by direct measures of encouragement to family life here and to migration within the Empire. The system of family allowances now at last in being is still far from adequate to counteract the tendencies which have weakened family life and have made us a steadily ageing community. The experiment of the Empire Settlement Act of 1922, so grievously frustrated by the world depression, needs to be resumed and on bolder lines. Personally I have always believed that the best system of Empire migration would be on the lines of Rowland Hill's imaginative simplification of our postal system, namely, that there should be a one-price ticket, single or return, to any destination in the Empire, purchasable at any Post Office on production of evidence of the migrant's suitability.

Provided our general economic policy is sound we need have no fear that migration will weaken or unduly deplete the population of this country. Population is not a separate process disconnected with the general economy of a nation. It is essentially an ecological process and responds to the opportunities created for it. It is in a sense the by-product as well as the creator of industry and agriculture. If migration strengthens Empire development and increases our trade the place of those who have gone will soon be filled up again, while the whole tone of our life will have been strengthened by increased opportunity at home. At the same time it is no doubt true that the need for population required for a rapid development of the Empire is much greater than migration from here can supply with our present reduced rate of reproduction.

There should be far less hesitation than there is to-day, both here and in the Dominions, in accepting healthy and virile white immigrant stock from outside. The present state of Europe affords a wonderful opportunity for us all to infuse new blood into our systems without danger to the supreme importance of maintaining our national traditions and way of life.

So much for the policy of economic expansion in the Empire. It is essentially a policy of preference or priority, not a policy of exclusion. On the contrary it can and should be combined both with a policy of developing our trade with our European neighbours and with a balanced and stable expansion of world trade. The trade with Europe is, for this country at any rate, as I have already pointed out, of far less importance than our trade with the Empire, in so far as it is to a great extent competitive rather than complementary, and in so far as it has none of the latent possibilities of expansion inherent in the Empire trade. Nevertheless there is room for a considerable trade supplementary to our present Empire trade in dairy products and timber from the Scandinavian countries, in wine and fruit and other agricultural produce with France and Southern Europe, including Turkey, as well as for a fruitfully balanced traffic in manufactured specialities of all kinds, while Europe badly needs our coal and, for the time being at least, much capital equipment that we can supply. Moreover Western Europe's needs for primary foodstuffs and raw materials may well call for supplies from the British Empire over and above what the colonial empires of Western European countries can furnish, more particularly if Russian policy insists on maintaining an economic as well as a political iron curtain between her satellites and the rest of Europe.

The development of our European trade may take the shape of a series of bilateral agreements with individual countries. Or, if a regular preferential system for Europe comes into existence—I have already given my reason for regarding an actual European customs union as an improbable and certainly remote contingency—we may be able to join in with it in respect of certain commodities or on some scheme of second preferences ranking after our preferences with the Empire.

But this means a far-reaching change in policy on the part of all concerned. In the case of Empire Preference we have since 1898 been free from Most Favoured Nation Clause obligations, and all we are concerned with is to resist the new obligations in that sense which the United States are trying to force upon us. Outside the Empire we are still bound by a whole network of commercial treaties in which we are committed to the Most Favoured Nation Clause. I have dealt fully in earlier chapters with the restrictive effect of that clause on world trade. There can be no real progress until it is generally got rid of, or at any rate reinterpreted in the conditional sense, as France has always done and as the United States did up to 1922, namely that concessions given as the result of a trade agreement to one country should only be extended to third parties on the same or equivalent reciprocal terms. If necessary we should take unilateral action and announce that we shall regard the clause as no longer binding on us, at any rate in its unconditional interpretation, leaving it to others to denounce their commercial treaties with us—if they can afford it.

It may well prove necessary in our present emergency, and most certainly if we cannot at once get rid of the restrictions imposed by compliance with American demands, to take exceptional measures to secure the necessary volume of exports whether in the Empire or in the foreign trade. I have already referred to the heavy veiled excise on British production embodied in the cumulative effect of all our various taxes. In the case of a specific excise imposed on a particular article after production, such as whisky, the absurdity of levying it on the export of that article is obvious. The exemption in such a case is, in fact, one definitely recognised in the Geneva Draft (Article 33). But there is no reason in logic or equity why the equally burdensome non-specific excise of taxation should not also be remitted on our exports generally. If that method should create international difficulties there are other ways of equivalent help to our exports. One alternative might be the exemption from profits tax of that portion of a firm's profits which are due to exports and their exemption from income tax if put back into the export trade.

Another, which Germany used to adopt in former days, would be to use the state ownership of the railways together with state subsidies to shipping in order to arrange for exceptionally low freight rates to specific destinations where we wish to make sure of our trade. Our great cotton export trade was largely built up between 1780 and 1820 by direct subsidies on export (see p. 22). The Australian sugar and dairying industries have been built up by prohibition of import, by a virtual bounty on export, and by preference at this end. We cannot afford to shrink from any methods, however novel, that is novel to those who only think in terms of the nineteenth century when we had already achieved world supremacy; not novel in terms of the methods by which that supremacy was won in earlier centuries.

To sum up. So far as the immediate and urgent problem of our existence for the next year or two is concerned, the way out lies in the wholehearted concentration of all our national energies on exporting enough to close the appalling gap in our balance of payments. That may have to be done in part by direct measures of allocation, both of materials and of labour. But these measures are bound to end in failure unless they are fitted into the framework of a financial policy which, both by incentive and disincentive, steadily influences all the national energies to work in the right direction. In any case the immediate policy thus outlined will not get us beyond a mere half-starved existence. It is a restrictive policy incompatible, in the long run, with real productive efficiency. It is only tolerable for a short time and provided that a positive and expansionist policy for better times and a fuller life is clearly envisaged and outlined. That policy for us can only lie in an expanding home market, in the mutual development of our vast and still largely undeveloped resources in the Empire and Commonwealth, and in the fruitful expansion of trade with our European neighbours. But there can be no recovery, here or in Europe, until we have definitely and finally broken with the American conception of an enforced nineteenth-century economic internationalism. Once we do that, and have somehow survived the immediate post-war famine crisis, the possibilities of development and of prosperity

both in the British Commonwealth and Empire and in the great economic area comprised by the nations of Continental Europe and their colonies are almost unlimited. So far from being exclusive these great nation groups will naturally do an increasing trade with the outside world and more particularly with each other. In that expansion of trade the United States will inevitably share in full measure. But it will be as an equal and not as a factor so dominant as to preclude the formation of comparable economic entities or so as to drag them down in the fluctuations of its own immensely dynamic but incalculable economy.

What is most needed, however, so far as we are concerned, is a change, not merely in policy but in outlook. It is not enough to break away from the out-of-date policy which the United States is attempting to reimpose on us. We must shake off the whole mentality of the last hundred years—"all the obese, unchallenged old things that stifle and overlie us". We must wake up to fight for our existence in a new world. It is a world in which our position is not that of the Victorian age but rather that of the days of Queen Elizabeth, days of slender resources, but of an all-doing spirit. It is the Elizabethan spirit that we need if we are to win through and lay the foundations of a happier future for our own people here at home; if we are to re-establish for the British Commonwealth that world leadership to which our great tradition and our experience still entitle us.

APPENDIX A

THE ECONOMIC CLAUSES OF THE ATLANTIC CHARTER

FOURTH, they (i.e. President Roosevelt and Mr. Churchill) will endeavour, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.

FIFTH, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labour standards, economic adjustment and social security.

APPENDIX B

MUTUAL AID AGREEMENT

(LEND-LEASE)

WHEREAS the Governments of the United States of America and the United Kingdom of Great Britain and Northern Ireland declare that they are engaged in a co-operative undertaking, together with every nation or people of like mind, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations;

And whereas the President of the United States of America has determined, pursuant to the Act of Congress of March 11, 1941, that the defence of the United Kingdom against aggression is vital to the defence of the United States of America;

And whereas the United States of America has extended and is continuing to extend to the United Kingdom aid in resisting aggression;

And whereas it is expedient that the final determination of the terms and conditions upon which the Government of the United Kingdom receives such aid and of the benefits to be received by the United States of America in return therefor should be deferred until the extent of the defence aid is known and until the progress of events

makes clearer the final terms and conditions and benefits which will be in the mutual interests of the United States of America and the United Kingdom and will promote the establishment and maintenance of world peace;

And whereas the Governments of the United States of America and the United Kingdom are mutually desirous of concluding now a preliminary agreement in regard to the provision of defence aid and in regard to certain considerations which shall be taken into account in determining such terms and conditions and the making of such an agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfil or execute prior to the making of such an agreement in conformity with the laws either of the United States of America or of the United Kingdom have been performed, fulfilled or executed as required;

The undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

ARTICLE I

The Government of the United States of America will continue to supply the Government of the United Kingdom with such defence articles, defence services and defence information as the President shall authorize to be transferred or provided.

ARTICLE II

The Government of the United Kingdom will continue to contribute to the defence of the United States of America and the strengthening thereof and will provide such articles, services, facilities or information as it may be in a position to supply.

ARTICLE III

The Government of the United Kingdom will not without the consent of the President of the United States of America transfer title to, or possession of, any defence article or defence information transferred to it under the Act or permit the use thereof by any one not an officer, employee or agent of the Government of the United Kingdom.

ARTICLE IV

If, as a result of the transfer to the Government of the United Kingdom of any defence article or defence information, it becomes necessary for that Government to take any action or make any

payment in order fully to protect any of the rights of a citizen of the United States of America who has patent rights in and to any such defence article or information, the Government of the United Kingdom will take such action or make such payment when requested to do so by the President of the United States of America.

ARTICLE V

The Government of the United Kingdom will return to the United States of America at the end of the present emergency, as determined by the President, such defence articles transferred under this agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defence of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

ARTICLE VI

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom full cognizance shall be taken of all property, services, information facilities, or other benefits or considerations provided by the Government of the United Kingdom subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America.

ARTICLE VII

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for and furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the

United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments.

ARTICLE VIII

This agreement shall take effect as from this day's date. It shall continue in force until a date to be agreed upon by the two governments.

Signed and sealed at Washington in duplicate this 23rd day of February, 1942.

APPENDIX C

THE FINANCIAL AGREEMENT

(Cmd 6708)

1. *Effective date of the Agreement.*

The effective date of this Agreement shall be the date on which the Government of the United States notifies the Government of the United Kingdom that the Congress of the United States has made available the funds necessary to extend to the Government of the United Kingdom the line of credit in accordance with the provisions of this Agreement.

2. *Line of Credit.*

The Government of the United States will extend to the Government of the United Kingdom a line of credit of $3,750,000,000 which may be drawn upon at any time between the effective date of this Agreement and December 31, 1951, inclusive.

3. *Purpose of the Line of Credit.*

The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional post-war deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements.

4. *Amortisation and Interest.*

(i) The amount of the line of credit drawn by December 31, 1951, shall be repaid in 50 annual instalments beginning on December 31, 1951, with interest at the rate of 2 per cent per annum.

Interest for the year 1951 shall be computed on the amount outstanding on December 31, 1951, and for each year thereafter interest shall be computed on the amount outstanding on January 1st of each such year.

Forty-nine annual instalments of principal repayments and interest shall be equal, calculated at the rate of $31,823,000 for each $1,000,000,000 of the line of credit drawn by December 31, 1951, and the fiftieth annual instalment shall be at the rate of $31,840,736·65 for each such $1,000,000,000.

Each instalment shall consist of the full amount of the interest due and the remainder of the instalment shall be the principal to be repaid in that year. Payments required by this section are subject to the provisions of Section 5.

(ii) The Government of the United Kingdom may accelerate repayment of the amount drawn under this line of credit.

5. *Waiver of Interest Payments.*

In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in the instalment of that year, the Government of the United States will grant the waiver if:

(*a*) the Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves, *and*

(*b*) the International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936–8 at £866,000,000, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of £43,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks before the effective date of this Agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from

invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

6. *Relation of this line of credit to other obligations.*

(i) It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this agreement will be found from resources other than this line of credit.

(ii) The Government of the United Kingdom will not arrange any long term loans from Governments within the British Commonwealth after December 6, 1945, and before the end of 1951, on terms more favourable to the lender than the terms of this line of credit.

(iii) Waiver of interest will not be requested or allowed under Section 5 in any year unless the aggregate of the releases or payments in that year of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks (except in the case of colonial dependencies) before the effective date of this agreement, is reduced proportionately, and unless interest payments due in that year on loans referred to in (ii) above are waived. The proportionate reduction of the releases or payments of sterling balances shall be calculated in relation to the aggregate released and paid in the most recent year in which waiver of interest was not requested.

(iv) The application of the principle set forth in this section shall be the subject of full consultation between the two Governments as occasion may arise.

7. *Sterling Area Exchange Arrangements.*

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than one year after the effective date of this agreement, unless in exceptional cases a later date is agreed upon after consultation, under which immediately after the completion of such arrangements the sterling receipts from current transactions of all sterling area countries (apart from any receipts arising out of military expenditure by the Government of the United Kingdom prior to December 31, 1948, to the extent to which they are treated by agreement with the countries concerned on the same basis as the balances accumulated during the war) will be freely available for current transactions in any currency area

without discrimination with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed and that each Member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

8. *Other Exchange Arrangements.*

(i) The Government of the United Kingdom agrees that after the effective date of this agreement it will not apply exchange controls in such a manner as to restrict

(*a*) payments or transfers in respect of products of the United States permitted to be imported into the United Kingdom or other current transactions between the two countries or
(*b*) the use of sterling balances to the credit of residents of the United States arising out of current transactions.

Nothing in this paragraph (i) shall affect the provisions of Article VII of the Articles of Agreement of the International Monetary Fund when those Articles have come into force.

(ii) The Governments of the United States and the United Kingdom agree that not later than one year after the effective date of this agreement, unless in exceptional cases a later date is agreed upon after consultation, they will impose no restrictions on payments and transfers for current transactions. The obligations of this paragraph (ii) shall not apply

(*a*) to balances of third countries and their nationals accumulated before this paragraph (ii) becomes effective; or
(*b*) to restrictions imposed in conformity with the Articles of Agreement of the International Monetary Fund, provided that the Governments of the United Kingdom and the United States will not continue to invoke the provisions of Article XIV Section 2 of those Articles after this paragraph (ii) becomes effective unless in exceptional cases after consultation they agree otherwise; or
(*c*) to restrictions imposed in connection with measures designed to uncover and dispose of assets of Germany and Japan.

(iii) This Section and Section 9 which are in anticipation of more comprehensive arrangements by multilateral agreement shall operate until 31st December, 1951.

9. *Import Arrangements.*

If either the Government of the United States or the Government of the United Kingdom imposes or maintains quantitative import restrictions, such restrictions shall be administered on a basis which does not discriminate against imports from the other country in respect of any product; provided that this undertaking shall not apply in cases in which

(*a*) its application would have the effect of preventing the country imposing such restrictions from utilising, for the purchase of needed imports, inconvertible currencies accumulated up to 31st December, 1946; or
(*b*) there may be special necessity for the country imposing such restrictions to assist, by measures not involving a substantial departure from the general rule of non-discrimination, a country whose economy has been disrupted by war; or
(*c*) either Government imposes quantitative restrictions having equivalent effect to any exchange restrictions which that Government is authorised to impose in conformity with Article VII of the Articles of Agreement of the International Monetary Fund.

The provisions of this Section shall become effective as soon as practicable, but not later than December 31, 1946

10. *Accumulated Sterling Balances.*

(i) The Government of the United Kingdom intends to make agreements with the countries concerned, varying according to the circumstances of each case, for an early settlement covering the sterling balances accumulated by sterling area and other countries prior to such settlement (together with any future receipts arising out of military expenditure by the Government of the United Kingdom to the extent to which they are treated on the same basis by agreement with the countries concerned). The settlements with the sterling area countries will be on the basis of dividing these accumulated balances into three categories:

(*a*) balances to be released at once and convertible into any currency for current transactions;
(*b*) balances to be similarly released by instalments over a period of years beginning in 1951; and
(*c*) balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the

benefits which the countries concerned might be expected to gain from such a settlement.

The Government of the United Kingdom will make every endeavour to secure the early completion of these arrangements.

(ii) In consideration of the fact that an important purpose of the present line of credit is to promote the development of multilateral trade and facilitate its early resumption on a non-discriminatory basis, the Government of the United Kingdom agrees that any sterling balances released or otherwise available for current payments will, not later than one year after the effective date of this agreement, unless in special cases a later date is agreed upon after consultation, be freely available for current transactions in any currency area without discrimination.

11. *Definitions.*

For the purposes of this agreement:

(i) The term "current transactions" shall have the meaning prescribed in Article XIX (*i*) of the Articles of Agreement of the International Monetary Fund.

(ii) The term "sterling area" means the United Kingdom and the other territories declared by the Defence (Finance) (Definition of Sterling Area) (No. 2) Order, 1944, to be included in the sterling area, namely, "the following Territories, excluding Canada and Newfoundland, that is to say:

(*a*) any Dominion,
(*b*) any other part of His Majesty's Dominions,
(*c*) any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom, or in any Dominion,
(*d*) any British Protectorate or Protected State,
(*e*) Egypt, the Anglo-Egyptian Sudan and Iraq,
(*f*) Iceland and the Faroe Islands."

12. *Consultation on Agreement.*

Either Government shall be entitled to approach the other for a re-consideration of any of the provisions of this agreement, if in its opinion the prevailing conditions of international exchange justify such reconsideration with a view to agreeing upon modifications for presentation to their respective Legislatures.

JOINT STATEMENT REGARDING SETTLEMENT FOR LEND-LEASE, RECIPROCAL AID, SURPLUS WAR PROPERTY AND CLAIMS.

1. The Governments of the United States and the United Kingdom have reached an understanding for the settlement of Lend-Lease and Reciprocal Aid, for the acquisition of United States Army and Navy surplus property, and the United States interest in installations, located in the United Kingdom, and for the final settlement of the financial claims of each Government against the other arising out of the conduct of the war. Specific agreements necessary to implement these understandings, setting forth the terms in detail, and consistent herewith, are in the course of preparation and will shortly be completed.

2. This settlement for Lend-Lease and Reciprocal Aid will be complete and final. In arriving at this settlement both Governments have taken full cognisance of the benefits already received by them in the defeat of their common enemies. They have also taken full cognisance of the general obligations assumed by them in Article VII of the Mutual Aid Agreement of February 23, 1942, and the understandings agreed upon this day with regard to commercial policy. Pursuant to this settlement, both Governments will continue to discuss arrangements for agreed action for the attainment of the economic objectives referred to in Article VII of the Mutual Aid Agreement. The Governments expect in these discussions to reach specific conclusions at an early date with respect to urgent problems such as those in the field of telecommunications and civil aviation. In the light of all the foregoing, both Governments agree that no further benefits will be sought as consideration for Lend-Lease and Reciprocal Aid.

3. The net sum due from the United Kingdom to the United States for the settlement of Lend-Lease and Reciprocal Aid, for the acquisition of surplus property, and the United States interest in installations, located in the United Kingdom and for the settlement of claims shall be $650,000,000 subject to the accounting adjustment referred to below. This amount consists of

(*a*) a net sum of $118,000,000 representing the difference between the amount of the services and supplies furnished or to be furnished by each government to the other government after V-J day through Lend-Lease and Reciprocal Aid Channels, less the net sum due to the United Kingdom under the claims settlement, and

(*b*) a net sum of $532,000,000 for all other Lend-Lease and

Reciprocal Aid items, and for surplus property, and the United States interest in installations, located in the United Kingdom and owned by the United States Government.

The actual amounts due to the respective Governments for items included in (*a*) above other than claims will, however, be ascertained by accounting in due course, and the total sum of $650,000,000 will be adjusted for any difference between the sum of $118,000,000 mentioned above, and the actual sum found to be due. All new transactions between the two Governments after December 31, 1945, will be settled by cash payment.

4. The total liability found to be due to the Government of the United States will be discharged on the same terms as those specified in the Financial Agreement concluded this day for the discharge of the credit provided therein.

5. In addition to the financial payments referred to above, the two Governments have agreed upon the following:

(*a*) appropriate non-discriminatory treatment will be extended to United States nationals in the use and disposition of installations in which there is a United States interest;

(*b*) appropriate settlements for the Lend-Lease interest in installations other than in the United Kingdom and the colonial dependencies will be made of disposal of the installations;

(*c*) the United States reserves its right of recapture of any Lend-Lease articles held by United Kingdom armed forces, but the United States has indicated that it does not intend to exercise generally this right of recapture;

(*d*) disposals for military use to forces other than the United Kingdom armed forces of Lend-Lease articles held by the United Kingdom armed forces at V-J day, and disposals of civilian use other than in the United Kingdom and the colonial dependencies of such Lend-Lease articles will be made only with the consent of the United States Government, and any net proceeds will be paid to the United States Government. The United Kingdom Government agrees that except to a very limited extent it will not release for civilian use in, or export from, the United Kingdom and colonial dependencies, Lend-Lease articles held by the United Kingdom armed forces;

(*e*) the Government of the United Kingdom will use its best endeavours to prevent the export to the United States of any surplus property transferred in accordance with this understanding.

6. The Government of the United Kingdom agrees, that when requested by the Government of the United States from time to time prior to December 31, 1951, it will transfer, in cash, pounds sterling to an aggregate dollar value not in excess of $50,000,000 at the exchange rates prevailing at the times of transfer, to be credited against the dollar payments due to the Government of the United States as principal under this settlement. The Government of the United States will use these pounds sterling exclusively to acquire land or to acquire or construct buildings in the United Kingdom and the colonial dependencies for the use of the Government of the United States, and for carrying out educational programmes in accordance with agreements to be concluded between the two Governments.

7. The arrangements set out in this statement are without prejudice to any settlements concerning Lend-Lease and Reciprocal Aid which may be negotiated between the Governments of the United States and the Governments of Australia, New Zealand, the Union of South Africa, and India.

APPENDIX D

THE BRETTON WOODS AGREEMENT

International Monetary Fund[1]

The governments on whose behalf the present Agreement is signed agree as follows:

INTRODUCTORY ARTICLE

The International Monetary Fund is established and shall operate in accordance with the following provisions:

ARTICLE I—PURPOSES

The purposes of the International Monetary Fund are:

(i) To promote international monetary co-operation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion

[1] Articles and sections summarised are enclosed in brackets.

and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to Members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of Members.

The Fund shall be guided in all its decisions by the purposes set forth in this Article.

ARTICLE II—MEMBERSHIP

SECTION 1. *Original Members.*—The original Members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before the date specified in Article XX, Section 2 (*e*).

Section 2. *Other Members.*—Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund.

ARTICLE III—QUOTAS AND SUBSCRIPTIONS

SECTION 1. *Quotas.*—Each Member shall be assigned a quota. The quotas of the Members represented at the United Nations Monetary and Financial Conference which accept membership before the date specified in Article XX, Section 2 (*e*), shall be those set forth in Schedule A. The quotas of other Members shall be determined by the Fund.

SECTION 2. *Adjustment of quotas.*—The Fund shall at intervals of five years review, and if it deems it appropriate propose an adjustment of, the quotas of the Members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota

at the request of the Member concerned. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the Member concerned.

SECTION 3. *Subscriptions: Time, place, and form of payment.*—(*a*) The subscription of each Member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository on or before the date when the Member becomes eligible under Article XX, Section 4 (*c*) or (*d*), to buy currencies from the Fund.

(*b*) Each Member shall pay in gold, as a minimum, the smaller of

(i) twenty-five per cent of its quota; or
(ii) ten per cent of its net official holdings of gold and United States dollars as at the date when the Fund notifies Members under Article XX, Section 4 (*a*) that it will shortly be in a position to begin exchange transactions.

Each Member shall furnish to the Fund the data necessary to determine its net official holdings of gold and United States dollars.

(*c*) Each Member shall pay the balance of its quota in its own currency.

(*d*) If the net official holdings of gold and United States dollars of any Member as at the date referred to in (b) (ii) above are not ascertainable because its territories have been occupied by the enemy, the Fund shall fix an appropriate alternative date for determining such holdings. If such date is later than that on which the country becomes eligible under Article XX, Section 4 (*c*) or (*d*), to buy currencies from the Fund, the Fund and the member shall agree on a provisional gold payment to be made under (*b*) above, and the balance of the Member's subscription shall be paid in the Member's currency, subject to appropriate adjustment between the Member and the Fund when the net official holdings have been ascertained.

SECTION 4. *Payments when quotas are changed.*—(*a*) Each Member which consents to an increase in its quota shall, within thirty days after the date of its consent, pay to the Fund twenty-five per cent of the increase in gold and the balance in its own currency. If, however, on the date when the Member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold.

(*b*) If a Member consents to a reduction in its quota, the Fund shall, within thirty days after the date of the consent, pay to the

Member an amount equal to the reduction. The payment shall be made in the Member's currency and in such amount of gold as may be necessary to prevent reducing the Fund's holdings of the currency below seventy-five per cent of the new quota.

SECTION 5. *Substitution of securities for currency.*—The Fund shall accept from any Member in place of any part of the Member's currency which in the judgment of the Fund is not needed for its operations, notes or similar obligations issued by the Member or the depository designated by the Member under Article XIII, Section 2, which shall be non-negotiable, non-interest-bearing and payable at their par value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by Members, but also to any currency otherwise due to, or acquired by, the Fund.

ARTICLE IV—PAR VALUES OF CURRENCIES

SECTION 1. *Expression of par values.*—(*a*) The par value of the currency of each Member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

(*b*) All computations relating to currencies of Members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

SECTION 2. *Gold purchases based on par values.*—The Fund shall prescribe a margin above and below par value for transactions in gold by Members, and no Member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

SECTION 3. *Foreign exchange dealings based on parity.*—The maximum and the minimum rates for exchange transactions between the currencies of Members taking place within their territories shall not differ from parity.

(i) in the case of spot exchange transactions, by more than one per cent; and
(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

SECTION 4. *Obligations regarding exchange stability.*— (*a*) Each Member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other Members, and to avoid competitive exchange alterations.

(*b*) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other Members only within the limits prescribed under Section 3 of this Article. A Member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

SECTION 5. *Changes in par values.*—(*a*) A Member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(*b*) A change in the par value of a Member's currency may be made only on the proposal of the Member and only after consultation with the Fund.

(*c*) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the Member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten per cent of the initial par value, the Fund shall raise no objection;
(ii) does not exceed a further ten per cent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the Member so requests:
(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(*d*) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (*c*) above.

(*e*) A Member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of Members of the Fund.

(*f*) The Fund shall concur in a proposed change which is within the terms of (*c*) (ii) or (*c*) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the Member proposing the change.

SECTION 6. *Effect of unauthorised changes.*—If a Member changes the par value of its currency despite the objection of the Fund, in

cases where the Fund is entitled to object, the Member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the Member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2 (*b*).

SECTION 7. *Uniform changes in par values.*—Notwithstanding the provisions of Section 5 (*b*) of this Article, the Fund by a majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all Members, provided each such change is approved by every Member which has ten per cent or more of the total of the quotas. The par value of a Member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the Member informs the Fund that it does not wish the par value of its currency to be changed by such action.

SECTION 8. *Maintenance of gold value of the Fund's assets.*—(*a*) the gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(*b*) Whenever (i) the par value of a Member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that Member's territories, the Member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(*c*) Whenever the par value of a Member's currency is increased, the Fund shall return to such Member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(*d*) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all Members, unless at the time when such a change is proposed the Fund decides otherwise.

SECTION 9. *Separate currencies within a Member's territories.*—A Member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this Agreement under Article XX, Section 2 (*g*). It shall, however, be open to a Member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

ARTICLE V—TRANSACTIONS WITH THE FUND

SECTION 1. *Agencies dealing with the Fund.*—Each Member shall deal with the Fund only through its Treasury, central bank, stabilisation fund, or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

SECTION 2. *Limitation on the Fund's operations.*—Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose of supplying a Member, on the initiative of such Member, with the currency of another Member in exchange for gold or for the currency of the Member desiring to make the purchase.

SECTION 3. *Conditions governing use of the Fund's resources.*—(*a*) A Member shall be entitled to buy the currency of another Member from the Fund in exchange for its own currency subject to the following conditions:

(i) The Member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;

(ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;

(iii) The proposed purchase would not cause the Fund's holdings of the purchasing Member's currency to increase by more than twenty-five per cent of its quota during the period of twelve months ending on the date of the purchase nor to exceed two hundred per cent of its quota, but the twenty-five per cent limitation shall apply only to the extent that the Fund's holdings of the Member's currency have been brought above seventy-five per cent of its quota if they had been below that amount;

(iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2 (*a*), that the member desiring to purchase is ineligible to use the resources of the Fund.

(*b*) A Member shall not be entitled without the permission of the Fund to use the Fund's resources to acquire currency to hold against forward exchange transactions.

SECTION 4. *Waiver of Conditions.*—The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions

prescribed in Section 3 (*a*) of this Article, especially in the case of Members with a record of avoiding large or continuous use of the Fund's resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the Member requesting the waiver. The Fund shall also take into consideration a Member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

SECTION 5. *Ineligibility to use the Fund's resources.*—Whenever the Fund is of the opinion that any Member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the Member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a Member, the Fund may limit the use of its resources by the Member. If no reply to the report is received from the Member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the Member's use of the Fund's resources or may, after giving reasonable notice to the Member, declare it ineligible to use the resources of the Fund.

SECTION 6. *Purchases of currencies from the Fund for gold.*—(*a*) Any Member desiring to obtain, directly or indirectly, the currency of another Member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(*b*) Nothing in this Section shall be deemed to preclude any Member from selling in any market gold newly produced from mines located within its territories.

SECTION 7. *Repurchase by a Member of its currency held by the Fund.*—(*a*) A Member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currency in excess of its quota.

(*b*) At the end of each financial year of the Fund, a Member shall repurchase from the Fund with gold or convertible currencies, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each Member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to one-half of any increase that has occurred during the year in the Fund's holdings of its currency plus one-half of any increase, or minus one-half of any decrease, that has occurred during the year in the Member's monetary reserves. This rule shall not apply when a Member's monetary reserves

have decreased during the year by more than the Fund's holdings of its currency have increased.

(ii) If after the repurchase described in (i) above (if required) has been made, a Member's holdings of another Member's currency (or of gold acquired from that Member) are found to have increased by reason of transactions in terms of that currency with other Members or persons in their territories, the Member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

(*c*) None of the adjustments described in (*b*) above shall be carried to a point at which

(i) the Member's monetary reserves are below its quota, or
(ii) the Fund's holdings of its currency are below seventy-five per cent of its quota, or
(iii) the Fund's holdings of any currency required to be used are above seventy-five per cent of the quota of the Member concerned.

SECTION 8. *Charges.*—(*a*) Any Member buying the currency of another Member from the Fund in exchange for its own currency shall pay a service charge uniform for all Members of three-fourths per cent in addition to the parity price. The Fund in its discretion may increase this service charge to not more than one per cent or reduce it to not less than one-half per cent.

(*b*) The Fund may levy a reasonable handling charge on any Member buying gold from the Fund or selling gold to the Fund.

(*c*) The Fund shall levy charges uniform for all Members which shall be payable by any Member on the average daily balances of its currency held by the Fund in excess of its quota. These charges shall be at the following rates:

(i) *On amounts not more than twenty-five per cent in excess of the quota:* no charge for the first three months; one-half per cent per annum for the next nine months; and thereafter an increase in the charge of one-half per cent for each subsequent year.
(ii) *On amounts more than twenty-five per cent and not more than fifty per cent in excess of the quota*: an additional one-half per cent for the first year; and an additional one-half per cent for each subsequent year.
(iii) *On each additional bracket of twenty-five per cent in excess of the*

quota: an additional one-half per cent for the first year; and an additional one-half per cent for each subsequent year.

(*d*) Whenever the Fund's holdings of a Member's currency are such that the charge applicable to any bracket for any period has reached the rate of four per cent per annum, the Fund and the Member shall consider means by which the Fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (*c*) above until they reach five per cent and failing agreement, the Fund may then impose such charges as it deems appropriate.

(*e*) The rates referred to in (*c*) and (*d*) above may be changed by a three-fourths majority of the total voting power.

(*f*) All charges shall be paid in gold. If, however, the Member's monetary reserves are less than one-half of its quota, it shall pay in gold only that proportion of the charges due which such reserves bear to one-half of its quota, and shall pay the balance in its own currency.

ARTICLE VI—CAPITAL TRANSFERS

SECTION 1. *Use of the Fund's resources for capital transfers.*—(*a*) A Member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a Member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a Member fails to exercise appropriate controls, the Fund may declare the Member ineligible to use the resources of the Fund.

(*b*) Nothing in this Section shall be deemed

(i) to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or

(ii) to affect capital movements which are met out of a Member's own resources of gold and foreign exchange, but Members undertake that such capital movements will be in accordance with the purposes of the Fund.

SECTION 2. *Special provisions for capital transfers.*—If the Fund's holdings of the currency of a Member have remained below seventy-five per cent of its quota for an immediately preceding period of not less than six months, such Member, if it has not been declared ineligible to use the resources of the Fund under Section 1 of this Article, Article IV, Section 6, Article V, Section 5, or Article XV,

Section 2 (*a*), shall be entitled, notwithstanding the provisions of Section 1 (*a*) of this Article to buy the currency of another Member from the Fund with its own currency for any purpose, including capital transfers. Purchase for capital transfers under this Section shall not, however, be permitted if they have the effect of raising the Fund's holdings of the currency of the Member desiring to purchase above seventy-five per cent of its quota, or of reducing the Fund's holdings of the currency desired below seventy-five per cent of the quota of the Member whose currency is desired.

SECTION 3. *Controls of capital transfers.*—Members may exercise such controls as are necessary to regulate international capital movements, but no Member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3 (*b*), and in Article XIV, Section 2.

ARTICLE VII—SCARCE CURRENCIES

SECTION 1. *General scarcity of currency.*—If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform Members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the Member whose currency is involved shall participate in the preparation of the report.

SECTION 2. *Measures to replenish the Fund's holdings of scarce currencies.*—The Fund may, if it deems such action appropriate to replenish its holdings of any Member's currency, take either or both of the following steps:

(i) Propose to the Member that, on terms and conditions agreed between the Fund and the Member, the latter lend its currency to the Fund or that, with the approval of the Member, the Fund borrow such currency from some other source either within or outside the territories of the Member, but no Member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.

(ii) Require the Member to sell its currency to the Fund for gold.

SECTION 3. *Scarcity of the Fund's holdings.*—(*a*) If it becomes evident to the Fund that the demand for a Member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article,

shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of Members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(*b*) A formal declaration under (*a*) above shall operate as an authorization to any Member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV, Sections 3 and 4, the Member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the Member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(*c*) The authorization under (*b*) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

SECTION 4. *Administration of restrictions.*—Any Member imposing restrictions in respect of the currency of any other Member pursuant to the provisions of Section 3 (*b*) of this Article shall give sympathetic consideration to any representations by the other Member regarding the administration of such restrictions.

SECTION 5. *Effect of other international agreements on restrictions.*—Members agree not to invoke the obligations of any engagements entered into with other Members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

ARTICLE VIII—GENERAL OBLIGATIONS OF MEMBERS

SECTION 1. *Introduction*—In addition to the obligations assumed under other articles of this Agreement, each Member undertakes the obligations set out in this Article.

SECTION 2. *Avoidance of restrictions on current payments.*—(*a*) Subject to the provisions of Article VII, Section 3 (*b*), and Article XIV, Section 2, no Member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(*b*) Exchange contracts which involve the currency of any Member and which are contrary to the exchange control regulations of that Member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, Members may by mutual accord, co-operate in measures for the

purpose of making the exchange control regulations of either Member more effective, provided that such measures and regulations are consistent with this Agreement.

SECTION 3. *Avoidance of discriminatory currency practices.*—No Member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorised under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the Member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

SECTION 4. *Convertibility of foreign-held balances.*—(*a*) Each Member shall buy balances of its currency held by another Member if the latter, in requesting the purchase, represents

(i) that the balances to be brought have been recently acquired as a result of current transactions; or
(ii) that their conversion is needed for making payments for current transactions.

The buying Member shall have the option to pay either in the currency of the Member making the request or in gold.

(*b*) The obligation in (*a*) above shall not apply
(i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or
(ii) when the balances have accumulated as a result of transactions effected before the removal by a Member of restrictions maintained or imposed under Article XIV, Section 2; or
(iii) when the balances have been acquired contrary to the exchange regulations of the Member which is asked to buy them; or
(iv) when the currency of the Member requesting the purchase has been declared scarce under Article VII, Section 3 (*a*) or
(v) when the Member requested to make the purchase is for any reason not entitled to buy currencies of other Members from the Fund for its own currency.

SECTION 5. (This deals with the obligation of Members to furnish the Fund with such information as it needs for its purposes.)

SECTION 6. (Provides for consultation between Members regarding existing international agreements which may conflict in relation to temporary exchange restrictions.)

ARTICLE IX

(This provides for the Fund possessing full juridical personality, for the immunity from taxation or executive interference of all its property and assets wherever located.)

ARTICLE X

(Provides for co-operation with other international organisations.)

ARTICLE XI.—RELATIONS WITH NON-MEMBER COUNTRIES

SECTION 1. *Undertakings regarding relations with non-Member countries.* —Each Member undertakes:

(i) Not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any transactions with a non-Member or with persons in a non-Member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;

(ii) Not to co-operate with a non-Member or with persons in a non-Member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and

(iii) To co-operate with the Fund with a view to the application in its territories of appropriate measures to prevent transactions with non-Members or with persons in their territories which would be contrary to the provisions of the Agreement or the purposes of the Fund.

SECTION 2. *Restrictions on transactions with non-Member countries.*—Nothing in this Agreement shall affect the right of any Member to impose restrictions on exchange transactions with non-Members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of Members and are contrary to the purposes of the Fund.

ARTICLE XII.—ORGANISATION AND MANAGEMENT

SECTION 1. *Structure of the Fund.*—The Fund shall have a Board of Governors, Executive Directors, a Managing Director, and a staff.

SECTION 2. *Board of Governors.*—(*a*) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each Member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the Member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(*b*) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

(i) Admit new members and determine the conditions of their admission.
(ii) Approve a revision of quotas.
(iii) Approve a uniform change in the par value of the currencies of all members.
(iv) Make arrangements to co-operate with other international organisations (other than informal arrangements of a temporary or administrative character).
(v) Determine the distribution of the net income of the Fund.
(vi) Require a Member to withdraw.
(vii) Decide to liquidate the Fund.
(viii) Decide appeals from interpretations of this agreement given by the Executive Directors.

(*c*) to (*i*). (Deal with detailed arrangements for the annual meeting and other business of the Board of Governors.)

SECTION 3. (Provides for not less than twelve Executive Directors of whom five are to be elected by the five Members with largest quotas.)

SECTION 4. (Provides for the selection by the Executive Directors of a Managing Director who shall not be a Governor or Executive Director. He is to conduct the ordinary business of the Fund, subject to the general control of the Executive Directors and is to be responsible for the organisation, appointment and dismissal of the staff of the Fund. He and the staff "shall owe their duty entirely to the Fund and to no other authority".)

SECTION 5. *Voting*—(*a*) Each Member shall have two hundred and fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(*b*) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (*a*) above, adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other Members up to the date when the vote is taken;

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the Member involved.

(*c*) For the purpose of all computations under this Section, United States dollars shall be deemed to be of the weight and fineness in effect on July 1, 1944, adjusted for any uniform change under Article IV, Section 7, if a waiver is made under Section 8 (*d*) of that Article.

(*d*) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

SECTION 6. (Provides for the placing into reserve or distributing of the Fund's net income.)

SECTION 7. (Provides for the publication of annual and other reports.)

SECTION 8. (Provides for the communication of the Fund's views to Members. The Fund may also, by a two-third's majority, publish its views about the economic or monetary conditions of a Member, but such report must not involve "changes in the fundamental structure of the economic organisation of Members".)

ARTICLE XIII.—OFFICES AND DEPOSITORIES

(This provides that the principal office of the Fund shall be in the territory of the member having the largest quota, i.e. the United States, and for agencies or branch offices. Each country is to designate its Central Bank as a depository for the Fund's holding of its currency and other assets may be held by the Fund in other selected depositories, at least half of such holdings of the Fund to be in the depository designated by the largest quota holder and at least forty per cent in depositories designated by the next four largest quota holders.)

ARTICLE XIV.—TRANSITIONAL PERIOD

SECTION 1. *Introduction.*—The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

SECTION 2. *Exchange restrictions.*—In the post-war transitional

period Members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of Members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other Members as will facilitate international payments and the maintenance of exchange stability. In particular, Members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

SECTION 3. *Notification to the Fund.*—Each Member shall notify the Fund before it becomes eligible under Article XX, Section 4 (*c*) or (*d*), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A Member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

SECTION 4. *Action of the Fund relating to restrictions.*—Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any Member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any Member that conditions are favourable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement. The members shall be given a suitable time to reply to such representations. If the Fund finds that the Member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the Member shall be subject to Article XV, Section 2 (*a*).

SECTION 5. *Nature of transitional period.*—In its relations with Members, the Fund shall recognise that the post-war transitional period will be one of change and adjustment and in making decisions

on requests occasioned thereby which are presented by any Member it shall give the Member the benefit of any reasonable doubt.

ARTICLE XV.—WITHDRAWAL FROM MEMBERSHIP

SECTION 1. *Right of Members to withdraw.*—Any Member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

SECTION 2. *Compulsory withdrawal.*—(*a*) If a Member fails to fulfil any of its obligations under this Agreement, the Fund may declare the Member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section 6, Article V, Section 5, or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period the Member persists in its failure to fulfil any of its obligations under this Agreement, or a difference between a Member and the Fund under Article IV, Section 6, continues, that Member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

(*c*) Regulations shall be adopted to insure that before action is taken against any Member under (*a*) or (*b*) above the Member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

SECTION 3. *Settlement of accounts with Members withdrawing.*—When a Member withdraws from the Fund, normal transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable dispatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule D shall apply to the settlement of accounts.

ARTICLE XVI.—EMERGENCY PROVISIONS

SECTION 1. (This provides for the temporary suspension up to 120 days by the Executive Directors by unanimous vote the operation of IV 3 and 4 (*b*); V 2, 3, 7 and 8 (*a*) and (*f*); VI 2; XI 1. This suspension may be extended to 240 days by four-fifths of the Board of Governors; beyond that only by amendment of the Agreement under Article XVII.)

SECTION 2. (Provides for the liquidation of the Fund.)

ARTICLE XVII.—AMENDMENTS

(Ordinary amendments to the Agreement may be carried by three-fifths of the Members having four-fifths of the total voting power. Amendments modifying the right of withdrawal, the need for a Member's consent to a change in its quota, or a change in the par value of a Member's currency except on its own proposal, must be carried unanimously.)

ARTICLE XVIII.—INTERPRETATION

(Questions of interpretation are to be submitted to the Executive Directors, with appeal to the Governors whose decision shall be final. Disagreements between the Fund and a Member which has withdrawn, or during liquidation shall be referred to arbitration.)

ARTICLE XIX.—EXPLANATION OF TERMS

(This deals with definitions of detailed points.)

ARTICLE XX.—FINAL PROVISIONS

SECTION 1. *Entry into force.*—This Agreement shall enter into force when it has been signed on behalf of governments having 65 per cent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2 (*a*) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

SECTION 2 (*a*)—(*d*). (Minor consequential details.)

(*e*) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(*f*) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose Membership has been approved in accordance with Article II, Section 2.

(*g*) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

SECTION 2 (*h*) and (*i*), and SECTION 3. (Deal with detail and with the inauguration of the Fund, including the appointment of provisional Executive Directors.)

SECTION 4. *Initial determination of par values.*—(*a*) When the Fund is of the opinion that it will shortly be in a position to begin exchange

transactions, it shall so notify the Member and shall request each Member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No Member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theatre of major hostilities or for such period thereafter as the Fund may determine.

(*b*) to (*j*). (Minor consequential details and provisions for Members whose metropolitan territories have been occupied by the enemy.)

SCHEDULE A—QUOTAS

(*In millions of United States dollars*)

Australia	200	Iraq	8
Belgium	225	Liberia	.5
Bolivia	10	Luxembourg	10
Brazil	150	Mexico	90
Canada	300	Netherlands	275
Chile	50	New Zealand	50
China	550	Nicaragua	2
Colombia	50	Norway	50
Costa Rica	5	Panama	.5
Cuba	50	Paraguay	2
Czechoslovakia	125	Peru	25
Denmark[1]		Philippine Commonwealth	15
Dominican Republic	5	Poland	125
Ecuador	5	Union of South Africa	100
Egypt	45	Union of Soviet Socialist Republics	1,200
El Salvador	2.5	United Kingdom	1,300
Ethiopia	6	United States	2,750
France	450	Uruguay	15
Greece	40	Venezuela	15
Guatemala	5	Yugoslavia	60
Haiti	5		
Honduras	2.5		
Iceland	1		
India	400		
Iran	25	Total	8,800

SCHEDULE B.

(Detailed provisions for the repurchase by a Member of its currency held by the Fund.)

SCHEDULE C.

(Provisions for the election of Executive Directors.)

[1] The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

SCHEDULE D.

(Settlement of accounts with Members withdrawing. Section 4 of this Schedule provides that a former Member is, in the absence of any special agreement, to redeem any surplus of its currency held by the Fund, in gold or at its option in convertible currencies.)

SCHEDULE E.

(Detailed provisions for liquidation.)

International Bank for Reconstruction and Development

The Governments on whose behalf the present Agreement is signed agree as follows:

INTRODUCTORY ARTICLE

The International Bank for Reconstruction and Development is established and shall operate in accordance with the following provisions:

ARTICLE I.—PURPOSES

The purposes of the Bank are:

(i) To assist in the reconstruction and development of territories of Members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peace-time needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of Members,

thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of Members and, in the immediate post-war years, to assist in bringing about a smooth transition from a war-time to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

ARTICLE II.—MEMBERSHIP IN AND CAPITAL OF THE BANK

SECTION 1. (This provides for original membership by the original Members of the Fund and for subsequent participation.)

SECTIONS 2 to 6.—(The authorised capital stock is to be $10,000,000 which can be increased by a three-fourths vote of the Board. The minimum shares to be subscribed are set out in Schedule A. This differs chiefly from the subscriptions to the Fund in the United States subscription being $3,175 instead of $2,750 million.)

SECTION 7. *Method of payment of subscriptions for shares.*—Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the Members as follows:

(i) under Section 5 (i) of this Article, two per cent of the price of each share shall be payable in gold or United States dollars, and, when calls are made, the remaining eighteen per cent shall be paid in the currency of the Member;

(ii) when a call is made under Section 5 (ii) of this Article, payment may be made at the option of the Member either in gold, in United States dollars or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made;

(iii) when a Member makes payments in any currency under (i) and (ii) above, such payments shall be made in amounts equal in value to the Member's liability under the call. This liability shall be a proportionate part of the subscribed capital stock of the Bank, as authorised and defined in Section 2 of this Article.

SECTION 8 to 10. (Details as to time of payment, maintenance of the value of currency holdings and encumbering of shares.)

ARTICLE III.—GENERAL PROVISIONS RELATING TO LOANS AND GUARANTEES

SECTION 1. *Use of resources.*—(*a*) The resources and the facilities of the Bank shall be used exclusively for the benefit of Members with equitable consideration to projects for development and projects for reconstruction alike.

(*b*) For the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such Members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction.

SECTION 2. *Dealings between Members and the Bank.*—Each Member shall deal with the Bank only through its Treasury, central bank, stabilisation fund or other similar fiscal agency, and the Bank shall deal with Members only by or through the same agencies.

SECTION 3. *Limitations on guarantees and borrowings of the Bank.*—The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by any such increase the total would exceed one hundred per cent of the unimpaired subscribed capital, reserves and surplus of the Bank.

SECTION 4. *Conditions on which the Bank may guarantee or make loans.*—The Bank may guarantee, participate in, or make loans to any Member or any political subdivision thereof and any business, industrial, and agricultural enterprise in the territories of a Member, subject to the following conditions:

(i) When the Member in whose territories the project is located is not itself the borrower, the Member or the central bank or some comparable agency of the Member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a Member, that the guarantor, will be in a position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular Member in whose territories the project is located and of the Members as a whole.

(vi) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

SECTION 5. *Use of loans guaranteed, participated in or made by the Bank.*—(*a*) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular Member or Members.

(*b*) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

(*c*) In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

Articles IV to XI and the Schedules deal with administrative details not directly relevant to the subject matter of this work.

APPENDIX E

PROPOSALS FOR CONSIDERATION BY AN INTERNATIONAL CONFERENCE ON TRADE AND EMPLOYMENT[1]

Washington, 6th Dec., 1945.

A. NEED FOR INTERNATIONAL ECONOMIC CO-OPERATION.

1. Collective measures to safeguard the people of the world against threats to peace and to reach just settlements of disputes among nations must be based not only on international machinery to deal directly with disputes and to prevent aggression, but also on economic co-operation among nations with the object of preventing and removing economic and social maladjustments, of achieving fairness and equity in economic relations between states, and of raising the level of economic well-being among all peoples.

2. Important contributions have already been made towards the attainment of these objectives. The Food and Agriculture Organisation of the United Nations has been established. An International Monetary Fund to maintain reasonable exchange stability and facilitate adjustment in the balance of payments of Member countries, and an International Bank for Reconstruction and Development to provide financial resources on a co-operative basis for those purposes are awaiting the action of governments required for their establishment.

3. In order to reach the objectives of the Atlantic Charter and Article VII of the mutual-aid agreements, it is essential that the co-operative economic measures already taken or recommended be supplemented by further measures dealing directly with trade barriers and discriminations which stand in the way of an expansion of multilateral trade and by an undertaking on the part of nations to seek full employment.

4. Co-operative action with respect to trade and employment is indispensable to the success of such other measures as those dealing with monetary and exchange stability and the flow of investment capital. Effective action in regard to employment and to trade barriers and discriminations must, therefore, be taken or the whole programme of international economic co-operation will fail, and an economic environment conducive to the maintenance of peaceful international relations will not be created.

[1] Articles and sections summarised are enclosed in brackets.

B. PROPOSALS CONCERNING EMPLOYMENT

Since high and stable levels of employment are a necessary condition for an enlarged volume of trade, and since problems of trade and employment are to be considered jointly at an international conference, the following propositions are advanced.

Governing Principles

1. It is recognised that:

(*a*) In all countries high and stable employment is a main condition for the attainment of satisfactory levels of living.

(*b*) The attainment of approximately full employment by the major industrial and trading nations, and its maintenance on a reasonably assured basis, are essential to the expansion of international trade on which the full prosperity of these and other nations depends; to the full realisation of the objectives of all liberal international agreements in such fields as commercial policy, commodity problems, restrictive business practices, monetary stabilisation, and investment; and, therefore, to the preservation of world peace and security.

2. Domestic programmes to expand employment should be consistent with realisation of the purposes of liberal international agreements and compatible with the economic well-being of other nations.

3. It is recognised that the adoption of the Bretton Woods Agreements and of measures to reduce restrictions on trade will contribute substantially to the maintenance of productive employment.

4. The United Nations have pledged, in the Charter of the United Nations Organisation, to take joint and separate action in co-operation with the Organisation to achieve the economic and social purposes of the United Nations, including higher standards of living, full employment, and conditions of economic and social progress and development.

Effectuation of Aims

There should be an undertaking that:

1 Each of the signatory nations will take action, designed to achieve and maintain full employment, within its own jurisdiction, through measures appropriate to its political and economic institutions.

2 No nation will seek to maintain employment through measures which are likely to create unemployment in other countries or which are incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production.

3 Signatory nations will make arrangements, both individually and collaboratively under the general sponsorship of the Economic and Social Council of the United Nations Organisation, for the collection, analysis and exchange of information on employment problems, trends, and policies.

4 Signatory nations will, under the general sponsorship of the Economic and Social Council, consult regularly on employment problems and hold special conferences in case of threat of widespread unemployment.

C. PROPOSALS CONCERNING AN INTERNATIONAL TRADE ORGANISATION

Need for an International Trade Organisation

1. Measures designed to effect an expansion of trade are essential because of their direct contribution to maximum levels of employment, production and consumption. Since such expansion can only be attained by collective measures, in continuous operation and adaptable to economic changes, it is necessary to establish permanent machinery for international collaboration in matters affecting international commerce, with a view to continuous consultation, the provision of expert advice, the formulation of agreed policies, procedures and plans, and to the development of agreed rules of conduct in regard to matters affecting international trade.

2. It is accordingly proposed that there be created an International Trade Organisation of the United Nations, the members of which would undertake to conduct their international commercial policies and relations in accordance with agreed principles to be set forth in the articles of the Organisation. These principles, in order to make possible an effective expansion of world production, employment, exchange and consumption, should:

(*a*) Provide an equitable basis for dealing with the problems of governmental measures affecting international trade;

(*b*) Provide for the curbing of restrictive trade practices resulting from private international business arrangements; and

(*c*) Govern the institution and operation of inter-governmental commodity arrangements.

Proposed International Trade Organisation

There follows an outline of the principles which it is proposed should be incorporated in the articles of the Organisation.

Chapter I

Purposes

The purposes of the Organisation should be:

1 To promote international commercial co-operation by establishing machinery for consultation and collaboration among member governments regarding the solution of problems in the field of international commercial policies and relations.
2 To enable Members to avoid recourse to measures destructive of world commerce by providing, on a reciprocal and mutually advantageous basis, expanding opportunities for their trade and economic development.
3 To facilitate access by all Members, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.
4 In general, to promote national and international action for the expansion of the production, exchange and consumption, of goods, for the reduction of tariffs and other trade barriers and for the elimination of all forms of discriminatory treatment in international commerce; thus contributing to an expanding world economy, to the establishment and maintenance in all countries of high levels of employment and real income, and to the creation of economic conditions conducive to the maintenance of world peace.

Chapter II

Membership

The original Members of the Organisation should be those countries participating in the Conference on Trade and Employment which accept membership.

Chapter III

General Commercial Policy

Section A. *General Commercial Provisions.*

Members should undertake:

1 To accord to products imported from other Members treatment no less favourable than that accorded to domestic products with regard to matters affecting the internal taxation and regulation of the trade in goods.
2 To provide, for products in transit through their territories, coming from or going to other Members, freedom from customs and transit duties, from unreasonable transit charges, and from discriminatory treatment of all kinds.
3 To subscribe to a general definition of the circumstances under which anti-dumping and countervailing duties may properly be applied to products imported from other Members.
4 To give effect, as soon as practicable, to agreed principles of tariff valuation designed to assure the use of true commercial values as a basis for assessing duties, and to co-operate with other Members and with the Organisation in working out internationally acceptable valuation procedures of a standardised character.
5 To give effect, as soon as practicable, to agreed principles looking towards the simplification of customs formalities with a view to eliminating unnecessary requirements which afford an indirect protection to domestic products.
6 To eliminate excessive requirements regarding marks of origin in so far as they affect products imported from other Members.
7 To refrain from governmentally financed or organised boycotts or campaigns designed to discourage, directly or indirectly, importation or consumption of products of other Members.
8 To provide for adequate publicity regarding laws and regulations affecting foreign trade, and to maintain or establish national tribunals of an independent character to review and correct administrative customs action.
9 To transmit to the Organisation appropriate trade information and statistics.
10 To co-operate with the Organisation and with other Members in carrying out or implementing the articles of the Organisation.

Section B. *Tariffs and Preferences.*

1. *Import tariffs and preferences.* In the light of the principles set forth in Article VII of the mutual-aid agreements, Members should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariff preferences, action for the elimination of tariff preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to world trade, as part of the mutually advantageous arrangements contemplated in this document.

As an initial step in the process of eliminating tariff preferences it should be agreed that:

(*a*) Existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences.
(*b*) All negotiated reductions in most-favoured-nation tariffs will operate automatically to reduce or eliminate margins of preference.
(*c*) Margins of preference on any product will in no case be increased and no new preferences will be introduced.

2. *Export tariffs and preferences.* Export duties should be open to negotiation in the same way as import duties. Members should undertake not to impose or maintain export duties which differentiate by reference to the destinations to which the goods are exported.

3. *Emergency action.* Commitments with regard to tariffs should permit countries to take temporary action to prevent sudden and widespread injury to the producers concerned. Undertakings for reducing tariffs should therefore contain an escape clause to cover such contingencies.

Section C. *Quantitative Trade Restrictions.*

1. *General elimination of Quantitative restrictions.* Except as provided for elsewhere in this Chapter, members should undertake not to maintain any quotas, embargoes, or other quantitative restrictions on their export or import trade with other members. This undertaking should not, however, apply to the following:

(*a*) Import and export prohibitions or restrictions, imposed during the early post-war transitional period, which are essential to (*a*) the efficient use of shipping space in short supply; (*b*) the equitable international distribution of products in short supply, or (*c*) the orderly liquidation of temporary surpluses of government stocks accumulated as a result of the war. Such prohibitions and restrictions should be removed not later than three years after the close of hostilities, but provision should be made whereby this period may be extended with the concurrence of the Organisation.
(*b*) Export prohibitions or restrictions temporarily imposed to relieve conditions of distress in the exporting country caused by severe shortages of foodstuffs or other essential products.

(*c*) Export prohibitions or restrictions necessary to the application of suitable standards for the classification and grading of commodities in international commerce.

(*d*) Export or import quotas imposed under inter-governmental commodity agreements conforming to the principles set forth in Chapter V.

(*e*) Import quotas on agricultural products, imported in any form, necessary to the enforcement of governmental measures which operate (*a*) to restrict the quantities of like domestic products which may be marketed or produced, or (*b*) to remove a temporary surplus of like domestic products by making such surpluses available to certain groups of domestic consumers free of charge or at prices below the current market level. Such quotas should not be more restrictive than necessary, should be removed as soon as they cease to be necessary for the purposes of this sub-paragraph, and should be made the subject of periodic consultation with the Organisation. If such quotas are allocated among sources of supply, they should be allocated fairly, on the basis of imports during a previous representative period, account being taken in so far as practicable of any special factors which may have affected or which may be affecting the trade in the product concerned. Import quotas imposed under (*a*) of this sub-paragraph should not be such as would reduce imports relatively to domestic production as compared with the proportion prevailing in a previous representative period, account being taken in so far as practicable of any special factors which may have affected or which may be affecting the trade in the product concerned.

2. *Restrictions to safeguard the balance of payments.* Members confronted with an adverse balance of payments should be entitled to impose quantitative import restrictions as an aid to the restoration of equilibrium in the balance of payments. This provision should be operative under conditions and procedures to be agreed upon. These conditions and procedures

(*a*) should set forth criteria and requirements in the light of which balance-of-payments restrictions might be imposed;

(*b*) should, as regards the use of such restrictions in the post-war transitional period, be framed on principles which would be designed to promote the maximum development of multilateral trade during that period and which in no event would

be more restrictive of such trade than the principles applicable, under Article XIV of the International Monetary Fund Agreement, to the use of exchange restrictions in the transitional period;

(*c*) should provide for the determination of the transitional period for the purposes of sub-paragraph *b*, above, by a procedure analogous to that contained in Article XIV of the International Monetary Fund Agreement;

(*d*) should provide for the full application of non-discrimination in the use of such restrictions after the transitional period; and

(*e*) should make appropriate provision for international consultation regarding balance-of-payments restrictions, whether imposed during the transitional period or thereafter.

3. *Equality of treatment.* Quantitative restrictions imposed on balance-of-payments grounds should be deemed non-discriminatory if they are administered on a basis which does not discriminate among sources of supply in respect of any imported product.

(*a*) In the case of restrictions imposed in the form of quotas, Members imposing such quotas should publish the global amounts or values of the various products which will be permitted to be imported during a specified future period. Any allocation of such quotas among sources of supply should be based insofar as practicable upon the proportion of the total imports of the product in question supplied by the various Member countries in a previous representative period, account being taken of any special factors which may have affected or which may be affecting the trade in that product.

(*b*) In the case of restrictions not imposed in the form of quotas, the Member imposing the restrictions should undertake to provide, upon the request of any other Member having an interest in the product concerned, all relevant information as to the administration of the restriction, including information as to the import licenses granted over a past period and the distribution of such licenses among sources of supply.

(*c*) Any Member should be entitled to raise with the Organisation the question as to whether another Member was imposing balance-of-payments restrictions, whether in the form of quota or otherwise, in a manner not in harmony with the guiding principles stated above or in a manner which unnecessarily injured its commerce, and the Member imposing the restrictions should undertake in these circumstances to discuss the grounds on which it had acted.

4. *Inconvertible currencies.* The undertakings set forth in paragraph 3, above, should not apply in cases in which their application would have the effect of preventing a Member from utilising inconvertible currencies for buying needed imports.

5. *Scarce currencies and currencies of territories having a common quota in the Monetary Fund.* Members should not be precluded by this Section from applying quantitative restrictions (*a*) in pursuance of action which they may take under Article VII of the International Monetary Fund Agreement, relating to scarce currencies, or (*b*) in a manner designed to maintain the par value of the currencies of territories having a common quota in the Monetary Fund, in accordance with Article XX, Section 4 (*g*) of that Agreement.

6. *Application of quantitative restrictions by state-trading organisations.* The provisions of this Section relating to quantitative restrictions on imports for balance-of-payments reasons should apply equally to the restriction of imports by state-trading organisations for the same reasons.

Section D. *Subsidies.*

1. *Subsidies in general.* Subject to the provisions of paragraphs 2 and 3, below, Members granting any subsidy which operates to increase exports or reduce imports should undertake to keep the Organisation informed as to the extent and nature of the subsidy, as to the reason therefor and as to the probable effects on trade. They should also be prepared, in cases where, under procedures approved by the Organisation, it is agreed that serious injury to international trade threatens to result from the operation of the subsidy, to discuss with other Members or with the Organisation possible limitations on the quantity of the domestic product subsidised. In this paragraph, the term "subsidy" includes any form of internal income or price support.

2. *Export subsidies.* Subject to the provisions of paragraph 3, below, members should undertake not to take any action which would result in the sale of a product in export markets at a price lower than the comparable price charged for the like product to buyers in the home market, due allowance being made for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability. This undertaking should take effect, at latest, within three years of the establishment of the Organisation. If at the end of that time any Member considers itself unable to comply with the undertakings in respect of any particular commodity or commodities it should inform the Organisation, with an explanation of the reasons. It should then be decided

by consultation among the interested Members under procedures approved by the Organisation whether there should be some further extension of time for the Member desiring it in respect of the commodity or commodities concerned.

3. *Commodities in surplus supply.*

(*a*) When it is determined, in accordance with procedures approved by the Organisation, that a commodity is, or is likely to become in burdensome world surplus, the Members which are important producers or consumers of the commodity should agree to consult together with a view to promoting consumption increases, to promoting the reduction of production through the diversion of resources from uneconomic production, and to seeking, if necessary, the conclusion of an inter-governmental commodity arrangement in accordance with the principles of Chapter V.

(*b*) If, however, within a reasonable time to be agreed upon, such steps should fail of their object, the provisions of paragraphs 1 and 2, above, should cease to apply to such product until such time as it has been agreed under procedures approved by the Organisation that those provisions should be re-applied to it.

(*c*) With regard to any export subsidies which may be imposed under sub-paragraph *b*, no Member should employ such subsidies so as to enlarge its share of the world market, as compared with the share prevailing in a previous representative period. The question as to what period would be representative in respect of the particular product concerned should be a subject for international consultation through the Organisation.

Section E. *State Trading.*

1. *Equality of treatment.* Members engaging in state trading in any form should accord equality of treatment to all other Members. To this end, Members should undertake that the foreign purchases and sales of their state-trading enterprises shall be influenced solely by commercial considerations, such as price, quality, marketability, transportation and terms of purchase or sale.

2. *State monopolies of individual products.* Members maintaining a state monopoly in respect of any product should undertake to negotiate, in the manner contemplated for tariffs, the maximum protective margin between the landed price of the product and the price at which the product (of whatever origin, domestic or foreign)

is sold in the home market. Members newly establishing such monopolies should agree not to create protective margins greater than the tariffs which may have been negotiated in regard to those products. Unless the product is subject to rationing, the monopoly should offer for sale such quantities of the product as will be sufficient to satisfy the full domestic demand.

3. *Complete state monopolies of foreign trade.* As the counterpart of tariff reductions and other actions to encourage an expansion of multilateral trade by other Members, Members having a complete state monopoly of foreign trade should undertake to purchase annually from Members, on the non-discriminatory basis referred to in paragraph 1, above, products valued at not less than an aggregate amount to be agreed upon. This global purchase arrangement should be subject to periodic adjustment in consultation with the Organisation.

Section F. *Exchange Control.*

(This provides in general terms that Members should abide by the exchange principles of the International Monetary Fund and "for this reason it should be required that the Organisation and the Fund have a Common Membership".)

Section G. *General Exceptions.*

(The undertakings of this Chapter must not be construed as preventing the adoption of measures to protect morals, health, relating to the traffic in arms, prison-made goods, patents, articles of archaeological and artistic value, etc. etc.)

Section H. *Territorial Application of Chapter III.*

1. *Customs territories.* The provisions of Chapter III should apply to the customs territories of the members. If any Member has more than one customs territory under its jurisdiction, each customs territory should be considered a separate Member for the purpose of applying the provisions of Chapter III.

2. *Frontier traffic and customs unions.* The provisions of Chapter III should not prevent any Member (*a*) from according advantages to adjacent countries in order to facilitate frontier traffic or (*b*) from joining a customs union, provided that such customs union meets certain agreed criteria. Members proposing to join a customs union should consult with the Organisation and should make available to it such information as would enable it to make appropriate reports and recommendations.

Chapter IV

Restrictive Business Practices

(This chapter deals with the desirability of individual action and international co-operation to curb restrictive practices such as combinations or agreements to fix prices on terms of sale, divide markets, limit production or export, suppress technology or invention, discriminate against individual firms, etc.)

Chapter V

Inter-Government Commodity Arrangements

(This chapter suggests special commodity studies, conferences and commodity agreements. It contemplates that such agreements may involve restrictions on production or trade in order to avoid unilateral action tending to shift the burden on to other countries, to alleviate difficulties of adjustment and provide for an orderly solution of particular problems. These may even apply in exceptional circumstances to industrial products in order to avoid widespread unemployment and undue hardship in a particular industry.)

Chapter VI

Organisation

(The Organisation is to collect, analyse and publish information regarding the operations of Chapters III–V and in regard to trade and commercial policy generally, to provide technical assistance to Members, to make recommendations, interpret the provisions of the proposed agreement, provide a mechanism for settling disputes, suggest further international agreements designed to improve trade, etc.

It is to comprise a Conference of all members which shall be the final authority to determine the policies of the Organisation and to exercise the powers conferred upon it. Each Member is to have one vote and decisions are normally to be by simple majority. The Conference is to meet at least once a year.

The Conference is to delegate such powers as it may decide to an Executive Board of not more than eighteen Member states on which the most important should have permanent seats. These latter are to be more than a third, but less than half of the total seats. The Executive Board is to regulate its own procedure.

The Executive Board is to appoint Commissions of experts on Commercial Policy, Business Practices and Commodities. The chairmen of these Commissions to be non-voting Members of the Executive Board and to participate in the deliberations of the Conference. There is also to be an Industrial and Mineral Unit created by the Conference and responsible to the Executive Board.

The Conference on the nomination of the Executive Board is to appoint a Director General, who will be head of the Secretariat, and three Deputy Directors-General. The Organisation is to be brought into relation with the United Nations Organisation and with other international organisations on terms to be arranged by the Executive Board subject to approval by the Conference.)

Joint Statement by the United States and the United Kingdom regarding the Understanding reached on Commercial Policy

6th December, 1945

The Secretary of State of the United States has made public to-day a document setting forth certain "Proposals for consideration by an International Conference on Trade and Employment." These proposals have the endorsement of the Executive branch of the Government of the United States and have been submitted to other governments as a basis for discussion preliminary to the holding of such a conference.

Equally, the Government of the United Kingdom is in full agreement on all important points in these proposals and accepts them as a basis for international discussion, and it will, in common with the United States Government, use its best endeavours to bring such discussions to a successful conclusion, in the light of the views expressed by other countries.

The two Governments have also agreed upon the procedures for the international negotiation and implementation of these proposals. To this end they have undertaken to begin preliminary negotiations at an early date between themselves and with other countries for the purpose of developing concrete arrangements to carry out these proposals, including definitive measures for the relaxation of trade barriers of all kinds.

These negotiations will relate to tariffs and preferences, quantitative restrictions, subsidies, State trading, cartels, and other types of trade barriers treated in the document published by the United States and referred to above. The negotiations will proceed in accordance with the principles laid down in that document.

APPENDIX F

REPORT OF THE SECOND SESSION OF THE PREPARATORY COMMITTEE OF THE UNITED NATIONS CONFERENCE ON TRADE AND EMPLOYMENT

(Geneva Draft Report)

THE FULL text of this document has been issued as a Government publication (Cmd 7212). The main changes in the original American Draft (Appendix E) have been explained in Chapter XI. It may, however, be convenient to set out in full certain of the more important articles or paragraphs.

CHAPTER III

(Articles 8–15)

This deals with the special position of "relatively undeveloped" countries, laying down conditions for investment in such countries, as well as admitting their right to take special measures of a protectionist, but not discriminatory, character in order to hasten their development.

ARTICLE 15

PREFERENTIAL ARRANGEMENTS FOR ECONOMIC DEVELOPMENT

1. The Members recognise that special circumstances may justify new preferential arrangements between two or more countries, not contemplating a customs union, in the interest of the programmes of economic development or reconstruction of one or more such countries. Subject to such limitations as it may impose, the Organisation may grant (by an affirmative vote of two-thirds of the Members voting) an exception to the provisions of Chapter IV to permit such arrangements to be made.

2. Any Member or Members contemplating such an arrangement shall notify the Organisation thereof and shall transmit to it a written statement of the considerations in support of the adoption of the arrangement. The Organisation shall then examine and give a decision concerning the proposal as if it had been submitted for its concurrence under Article 13. Any country which would be accorded preferential treatment by another country under the proposed arrangement shall be regarded as an applicant Member for the purpose of that Article.

The Delegation of Brazil entered a reservation pending a decision on the question of voting requirements under this Article.

The Delegation of Chile reserved its position both with respect to the principle of prior approval and with respect to the voting requirements of a two-thirds majority if the latter is decided upon.

CHAPTER IV

COMMERCIAL POLICY

ARTICLE 16

GENERAL MOST-FAVOURED-NATION TREATMENT

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 1 and 2 of Article 18, any advantage, favour, privilege or immunity granted by any Member to any product originating in or destined for any other country, shall be accorded immediately and unconditionally to the like product originating in or destined for all other Member countries respectively.

2. The provisions of paragraph 1 of this Article shall not require the elimination, except as provided in Article 17, of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 3 of this Article and which fall within the following descriptions:

(*a*) preferences in force exclusively between two or more of the territories listed in Annex A to this Charter, subject to the conditions set forth therein;

(*b*) preferences in force exclusively between two or more territories which on 1 July 1939 were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C, D and .. of this Charter, subject to the conditions set forth therein;

(*c*) preferences in force exclusively between the United States of America and the Republic of Cuba;

(*d*) preferences in force exclusively between neighbouring countries listed in Annexes E, F and .. of this Charter.

3. The margin of preference on any product in respect of which a preference is permitted under paragraph 2 of this Article shall not exceed (*a*) the maximum margin provided for under the General Agreement on Tariffs and Trade or any subsequent operative agreement resulting from negotiations under Article 17, or (*b*) if not provided for under such agreements, the margin existing either on 10 April 1947 or on such earlier date as may have been established for a Member as a basis for negotiating the General Agreement on Tariffs and Trade, at the option of such Member.

The following kinds of customs action, taken in accordance with established uniform procedures, would not be contrary to a general binding of margins of preference:

(i) the re-application to an imported product of a tariff classification or rate of duty, properly applicable to such product, in cases in which the application of such classification or rate to such product was temporarily suspended or inoperative on 1 April 1947; and

(ii) the application to a particular commodity of a tariff item other than that which was actually applied to importations of that commodity on 10 April 1947, in cases in which the tariff law clearly contemplates that such commodity may be classified under more than one tariff item.

The Delegations of Chile and Lebanon reserved their positions on this Article.

Paragraph 2

The delegations of Cuba reserved its position in relation to preferences accorded by differential internal taxes.

ARTICLE 17

REDUCTION OF TARIFFS AND ELIMINATION OF PREFERENCES

1. Each Member shall, upon the request of the Organisation, enter into and carry out with such other Member or Members as the Organisation may specify, negotiations directed to the substantial reduction of tariffs and other charges on imports and exports and to the elimination of the preferences referred to in paragraph 2 of Article 16 on a reciprocal and mutually advantageous basis. These negotiations shall proceed in accordance with the following rules:

(*a*) In the negotiations relating to any specific product

(i) when a reduction is negotiated only in the most-favoured-nation rate, such reduction shall operate automatically to reduce or eliminate the margin of preference applicable to that product;

(ii) when a reduction is negotiated only in the preferential rate, the most-favoured-nation rate shall automatically be reduced to the extent of such reduction;

(iii) when it is agreed that reductions will be negotiated in both the most-favoured-nation rate and the preferential rate, the reduction in each shall be that agreed by the parties to the negotiations;

(iv) no margin of preference shall be increased.

(*b*) The binding of low tariffs or of tariff-free treatment shall in principle be recognised as a concession equivalent in value to the substantial reduction of high tariffs or the elimination of tariff preferences.

(*c*) Account shall be taken of any concessions which either Member is already extending to the other Member by virtue of previous

negotiations regarding tariffs and preferences pursuant to this Article.

(*d*) The results of such negotiations shall be incorporated in the General Agreement on Tariffs and Trade signed at.......... on..........1947 by agreement with the parties to that Agreement, and thereupon the parties to such negotiation shall become contracting parties to the General Agreement on Tariff Trade if they are not so already.

The provisions of this Article do not prevent Members from concluding new, or maintaining existing, bilateral tariff agreements which are not incorporated in the General Agreement on Tariffs and Trade, provided that such agreements are consistent with the relevant principles of Article 17 and that the concessions made by a Member under such agreements are generalised to all members in accordance with Article 16.

The Cuban Delegation reserved its position.

Paragraph 1

The undertaking to negotiate regarding preferences necessarily implies that prior international commitments to grant particular preferences will not be permitted to frustrate the undertaking to negotiate. For this reason the provisions of sub-paragraph 1 (*a*) of the New York draft have been omitted from the Charter as being implicit.

Obviously any agreement reached affecting preferences provided for in any prior commitment would require, in order to be implemented, such change in the latter as might be necessary to give effect to the agreement. This change would either have to be agreed between the parties to the prior commitment or, if they could not agree, the party wishing to make the change, in order to proceed, would have to terminate the prior commitment in accordance with its terms.

2. If any Member considers that any other Member has failed to fulfil its obligations under paragraph 1 of this Article, such Member may refer the matter to the Organisation, which, after investigation, shall make appropriate recommendations to the Members concerned. If the Organisation finds that a Member has failed without sufficient justification, having regard to its economic position and the provisions of the Charter as a whole, to carry out negotiations within a reasonable period of time in accordance with the requirements of paragraph 1 of this Article, the Organisation may determine that any Member or Members shall, not withstanding the provisions of Article 16, be entitled to withhold from the trade of the other Member any of the tariff benefits which may have been negotiated pursuant to paragraph 1 of this Article, and embodied in Part I of the General Agreement on Tariffs and Trade. If such benefits are in fact withheld, so as to result in the application to the trade of the other Member of tariffs higher than would otherwise have been applicable, such other Member shall then be free, within sixty days after such action is taken, to withdraw from the Organisation upon the expiration of sixty days from the date on which written notice of such withdrawal is received by the Organisation.

3. The provisions of this Article shall operate in accordance with the provisions of Article 81.

ARTICLE 20

GENERAL ELIMINATION OF QUANTITATIVE RESTRICTIONS

1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any Member on the importation of any product of any other Member country or on the exportation or sale for export of any product destined for any other Member country.

2. The provisions of paragraph 1 of this Article shall not extend to the following:

(*a*) export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting Member country;

(*b*) import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade; if, in the opinion of the Organisation, the standards or regulations adopted by a Member under this sub-paragraph have an unduly restrictive effect on trade, the Organisation may request the Member to revise the standards or regulations; *Provided* that it shall not request the revision of standards internationally agreed under paragraph 7 of Article 38;

The Cuban Delegation reserved its position in view of the rejection of its proposal for excepting restrictions up to 50 per cent of domestic consummation for promoting the maintenance, development or reconstruction of an industry.

The Chinese and Lebanese Delegations reserved their position in respect of the proposal by the Chinese Delegation to add a sub-paragraph 2 (*d*) providing a procedure for releasing a Member, without the prior approval of the Organisation, from the obligation to refrain from import restrictions when the industry in question is of vital importance.

(*c*) import restrictions on any agricultural or fisheries product, imported in any form, necessary to the enforcement of governmental measures which operate:

(i) to restrict the quantities permitted to be marketed or produced of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or

(ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported products can be directly substituted, by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level; or

(iii) to restrict the quantities permitted to be produced of any animal product the production of which is directly dependent, wholly or mainly, on the imported commodity, if the domestic production of that commodity is relatively negligible.

Any Member applying restrictions on the importation of any product pursuant to this sub-paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified future period and of any change in such quantity or value. Moreover, any restrictions applied under (i) above shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the Member shall pay due regard to the proportion prevailing during a previous representative period, and to any special factors which may have affected or may be affecting the trade in the product concerned.

3. Throughout this Section the terms "import restrictions" or "export restrictions" include restrictions made effective through State-trading operations.

ARTICLE 21

This allows a member to disregard the provisions of paragraph 1 of Article 20 "in order to safeguard its external financial position and balance of payments", subject to two and a half pages of conditions and qualifications which can be interpreted in any sense desired.

ARTICLE 22 §§1–3

NON-DISCRIMINATORY ADMINISTRATION OF QUANTITATIVE RESTRICTIONS

1. No prohibition or restriction shall be applied by any Member on the importation of any product of any other Member country or on the exportation of any product destined for any other Member country, unless the importation of the like product of all third countries or the exportation of the like product to all third countries is similarly prohibited or restricted.

2. In applying import restrictions to any product, Members shall aim at a distribution of trade in such product approaching as closely

as possible to the shares which the various Member countries might be expected to obtain in the absence of such restrictions, and to this end shall observe the following provisions:

(*a*) wherever practicable, quotas representing the total amount of permitted imports (whether allocated among supplying countries or not) shall be fixed, and notice given of their amount in accordance with paragraph 3 (*b*) of this Article;
(*b*) in cases in which quotas are not practicable, the restrictions may be applied by means of import licences or permits without a quota;
(*c*) Members shall not, except for purposes of operating quotas allocated in accordance with sub-paragraph (*d*) of this paragraph, require that import licences or permits be utilised for the importation of the product concerned from a particular country or source;
(*d*) in cases in which a quota is allocated among supplying countries, the Member applying the restrictions may seek agreement with respect to the allocation of shares in the quota with all other Members having a substantial interest in supplying the product concerned. In cases in which this method is not reasonably practicable, the Member concerned shall allot to Member countries having a substantial interest in supplying the product, shares based upon the proportions, supplied by such Member countries during a previous representative period, of the total quantity or value of imports of the product, due account being taken of any special factors which may have affected or may be affecting the trade in the product. No conditions or formalities shall be imposed which would prevent any Member from utilising fully the share of any such total quantity or value which has been allotted to it, subject to importation being made within any prescribed period to which the quota may relate.

Paragraph 2, sub-paragraph (d)

The Preparatory Committee omitted the phrase establishing "commercial considerations" as a rule for the allocation of quotas, because it was considered that its application by governmental authorities might not always be practicable. Moreover, in cases where it was practicable, a Member could apply this consideration in the process of seeking agreement, consistently with the general rule laid down in the opening sentence of paragraph 2.

ARTICLE 23

EXCEPTIONS TO THE RULE OF NON-DISCRIMINATION

1. (*a*) The Members recognise that when a substantial and widespread disequilibrium prevails in international trade and payments a Member applying restrictions under Article 21 may be able to increase its imports from certain sources without unduly depleting

its monetary reserves, if permitted to depart from the provisions of Article 22. The Members also recognise the need for close limitation of such departures so as not to handicap achievement of multilateral international trade.

(*b*) Accordingly, when a substantial and widespread disequilibrium prevails in international trade and payments a Member applying import restrictions under Article 21 may relax such restrictions in a manner which departs from the provisions of Article 22 to the extent necessary to obtain additional imports above the maximum total of imports which it could afford in the light of the requirements of paragraph 2 of Article 21 if its restrictions were fully consistent with Article 22; *Provided* that

(i) levels of delivered prices for products so imported are not established substantially higher than those ruling for comparable goods regularly available from other Members, and that any excess of such price levels for products so imported is progressively reduced over a reasonable period;
(ii) the Member taking such action does not do so as part of any arrangement by which the gold or convertible currency which the Member currently receives directly or indirectly from its exports to other Members not party to the arrangement is appreciably reduced below the level it could otherwise have been reasonably expected to attain;
(iii) such action does not cause unnecessary damage to the commercial or economic interests of any other Member.

(*c*) Any Member taking action under this paragraph shall observe the principles of sub-paragraph (*b*) of this paragraph. A Member shall desist from transactions which prove to be inconsistent with that sub-paragraph but the Member shall not be required to satisfy itself, when it is not practicable to do so, that the requirements of that sub-paragraph are fulfilled in respect of individual transactions.

The Delegations of Czechoslovakia, Chile and Norway recorded a reservation.

The Belgian Delegation reserved its position pending examination of the Charter as a whole by the Belgian Government.

(*d*) Members undertake in framing and carrying out any programmes for additional imports under this paragraph to pay due regard to the need to facilitate the termination of any exchange arrangements which deviate from the obligations of Sections 2, 3 and 4 of Article VIII of the Articles of Agreement of the International Monetary Fund and to the need to restore equilibrium in their balances of payments on a sound and lasting basis.

2. Any Member taking action under paragraph 1 of this Article shall keep the Organisation regularly informed regarding such action and shall provide such available relevant information as the Organisation may request.

3. (*a*) Not later than 1 March 1952 (five years after the date on which the International Monetary Fund began operations) and in each year thereafter, any Member maintaining or proposing to institute action under paragraph 1 of this Article shall seek the approval of the Organisation, which shall thereupon determine whether the circumstances of the Member justify the maintenance or institution of action by it under paragraph 1 of this Article. After 1 March 1952 no Member shall maintain or institute such action without determination by the Organisation that the Member's circumstances justify the maintenance or institution of such action, as the case may be, and the subsequent maintenance or institution of such action by the Member shall be subject to any limitations which the Organisation may prescribe for the purpose of ensuring compliance with the provisions of paragraph 1 of this Article; *Provided* that the Organisation shall not require that prior approval be obtained for individual transactions.

(*b*) If at any time the Organisation finds that import restrictions are being applied by a Member in a discriminatory manner inconsistent with the exceptions provided for under paragraph 1 of this Article, the Member shall, within sixty days, remove the discrimination or modify it as specified by the Organisation; *Provided* that any action under paragraph 1 of this Article, to the extent that it has been approved by the Organisation under sub-paragraph (*a*) of this paragraph or to the extent that it has been approved by the Organisation at the request of a Member under a procedure analogous to that of paragraph 4 (*c*) of Article 21, shall not be open to challenge under this sub-paragraph or under paragraph 4 (*d*) of Article 21 on the ground that it is inconsistent with Article 22.

(*c*) Not later than 1 March 1950, and in each year thereafter so long as any Members are taking action under paragraph 1 of this Article, the Organisation shall report on the action still taken by Members under that paragraph. On or about 1 March 1952, and in each year thereafter so long as any Members are taking action under paragraph 1 of this Article, and at such times thereafter as the Organisation may decide, the Organisation shall review the question of whether there then exists such a substantial and widespread disequilibrium in international trade and payments as to justify resort to paragraph 1 of this Article by Members. If it appears at any date prior to 1 March 1952 that there has been a substantial and general improvement in international trade and payments, the Organisation may review the situation at that date. If, as a result of any such review, the Organisation determines that no such disequilibrium exists, the provisions of paragraph 1 of this Article shall be suspended, and all actions authorised thereunder shall cease six months after such determination.

4. The provisions of Article 22 shall not preclude restrictions in accordance with Article 21 which either

(*a*) are applied against imports from other countries, but not as among themselves, by a group of territories having a common quota in the International Monetary Fund on condition that such restrictions are in all other respects consistent with Article 22, or

(*b*) assist, in the period until 31 December 1951, by measures not involving substantial departure from the provisions of Article 22, another country whose economy has been disrupted by war.

5. The provisions of this Section shall not preclude:

(*a*) restrictions with equivalent effect to exchange restrictions authorised under Section 3 (*b*) of Article VII of the Articles of Agreement of the International Monetary Fund; or

(*b*) restrictions under the preferential arrangements provided for in Annex A of this Charter, subject to the conditions set forth therein.

ARTICLE 24

This deals with exchange arrangements and prescribes that Members must join the International Monetary Fund or enter into a special exchange arrangement with the Organisation.

ARTICLES 25–29

SUBSIDIES

The most important provisions here are those of paragraphs 1 and 2 of Article 26.

ARTICLE 26

ADDITIONAL PROVISIONS ON EXPORT SUBSIDIES

1. No Member shall grant, directly or indirectly, any subsidy on the exportation of any product, or establish or maintain any other system, which subsidy or system results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market, due allowance being made for differences in the conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.

2. Notwithstanding the provisions of paragraph 1 of this Article a Member may exempt exported products from duties or taxes imposed in respect of like products when consumed domestically, or may remit such duties or taxes which have accrued. The use of the proceeds of such duties or taxes to make payments to domestic producers, however, shall be considered as a case under Article 25 except in so far as such payments subsidise exportation, in the sense of paragraph 1 of this Article, by more than the amount of the duties or taxes remitted or not imposed, in which case the provisions of paragraph 1 of this Article shall apply to such excess payments.

The Cuban Delegation reserved its position.

ARTICLES 30 AND 31

STATE TRADING

The provisions of these articles are substantially to the same effect as those of the original draft, with the omission of the obligation on members having a complete monopoly of foreign trade to negotiate with other members for the annual purchase, on non-discriminatory lines, of an aggregate total value of their products.

A note to 30, 1 (*b*) says that "a country receiving a 'tied loan' is free to take this loan into account as a 'commercial consideration' when purchasing requirements abroad."

ARTICLE 42

TERRITORIAL APPLICATION OF CHAPTER IV—FRONTIER TRAFFIC—CUSTOMS UNIONS

1. The rights and obligations arising under this Chapter shall be deemed to be in force between each and every territory which is a separate customs territory and in respect of which this Charter has been accepted by a Member in accordance with Article 99.

2. The provisions of this Chapter shall not be construed to prevent:

(*a*) advantages accorded by any Member to adjacent countries in order to facilitate frontier traffic; or

(*b*) the formation of a customs union or the adoption of an interim agreement necessary for the attainment of a customs union; *Provided* that the duties and other regulations of commerce imposed by, or any margins of preference maintained by, any such union or agreement in respect of trade with Members of the Organisation shall not on the whole be higher or more stringent than the average level of the duties and regulations of commerce or margins of preference applicable in the constituent territories prior to the formation of such union or the adoption of such agreement, and *Provided* further that any such interim agreement shall include a definite plan and schedule for the attainment of such a customs union within a reasonable length of time.

3. (*a*) Any Member proposing to enter into a customs union shall consult with the Organisation and shall make available to it such information regarding the proposed union as will enable the Organisation to make such reports and recommendations to Members as it may deem appropriate.

(*b*) No Member shall institute or maintain any interim agreement under the provisions of paragraph 2 (*b*) of this Article if, after a study of the plan and schedule proposed in such agreement, the Organisa-

tion finds that such agreement is not likely to result in such a customs union within a reasonable length of time.

(c) The plan or schedule shall not be substantially altered without consultation with the Organisation.

4. For the purpose of this Article a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories. A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that all tariffs and other restrictive regulations of commerce as between the territories of members of the union are substantially eliminated and substantially the same tariffs and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union.

ARTICLE 81

THE TARIFF COMMITTEE

1. There shall be a Tariff Committee which shall act on behalf of the Organisation in initiating the negotiations provided for under paragraph 1 of Article 17 and in the making of recommendations and determinations pursuant to paragraph 2 of Article 17.

2. The Tariff Committee shall consist of those contracting parties to the General Agreement on Tariffs and Trade referred to in paragraph 1 (*d*) of Article 17 which are Members of the Organisation.

3. [Provisions relating to the voting power of each member].

4. [Provisions relating to the majority of votes required for decisions of the Committee].

5. The Committee shall adopt its own rules of procedure, including provision for the election of its officers.

APPENDIX G

SUMMARY OF THE GENERAL REPORT OF THE COMMITTEE OF EUROPEAN ECONOMIC CO-OPERATION*

CHAPTER I

HISTORICAL INTRODUCTION

THIS CHAPTER gives a general historical background to the work of the Committee and

(i) describes the wealth and productivity of Western Europe before the war and the dependence of this wealth upon

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a high degree of international trade and of internal division of labour;

(ii) describes the shattering of this delicate mechanism by the war and by post-war shortages;

(iii) gives an account of the remarkable degree of recovery achieved immediately after the war thanks to self help, American aid and the work of UNNRA;

(iv) explains the reasons for the setback in recovery after the hard winter and drought of 1947 which has taken the form of an exhaustion of gold and dollar reserves at a time of great dependence upon the American continent;

(v) and outlines the various steps taken by Mr. Marshall and others to bring about the Paris Conference.

CHAPTER II

THE EUROPEAN RECOVERY PROGRAMME

THE RECOVERY programme is based upon four points:

(i) a strong productive effort by each of the participating countries;

(ii) the creation of internal financial stability;

(iii) the maximum co-operation between the participating countries;

(iv) a solution of the problem of the participating countries' trading deficit with the American continent, particularly by exports.

The scale of the productive effort required represents an expansion of output similar in general scale to that achieved by the United States in the mobilisation years 1940–44, when coal output was increased by 34 per cent, steel output by 31 per cent, electric power by 61 per cent. The corresponding figures for Europe are 33 per cent, 60 per cent and 44 per cent. Europe's resources are insufficient to supply all the materials of recovery. At the same time neither Eastern Europe nor South-East Asia can produce their pre-war share of Europe's imports. This fact enhances Europe's dependence upon supplies from the American continent and hence upon dollars. Without a solution of the dollar problem, there can be no effective recovery.

CHAPTER III

THE PRODUCTION EFFORT

The Committee concentrated its work on the key factors—food, agriculture, fuel and power, steel, timber, transport, and related industries such as agricultural and mining machinery and the general problem of labour. These factors are all inter-dependent, and shortages in one hamper recovery in the others.

By 1951, the population of Western Europe will exceed the pre-war figure by 11 per cent. Goods and services must be provided to meet this increase.

National programmes aim at attaining the following objectives:

(i) restoration of pre-war bread grain and other cereal production, with large increases above pre-war in sugar and potatoes, some increases in oils and fats, and as fast an expansion in livestock products as supplies of feeding-stuffs will allow;
(ii) increase of coal output to 584 million tons—i.e., 145 million tons above the 1947 level (an increase of one-third) and 30 million tons above the 1938 level;
(iii) expansion of electricity output by nearly 70,000 million kwh., or 40 per cent above 1947, and a growth of generating capacity by 25 million kw., or two-thirds above pre-war;
(iv) development of oil refining capacity in terms of crude oil throughout by 17 million tons to two and a half times the pre-war level;
(v) increase of crude steel production by 80 per cent above the present level to 55 million tons, or 10 million tons (20 per cent) above 1938;
(vi) expansion of inland transport facilities to carry a 25 per cent greater load in 1951 than in 1938;
(vii) restoration of pre-war merchant fleets of the participating countries by 1951;
(viii) supply from European production of most of the capital equipment needed for these expansions.

Food production is the first essential. By 1951 cereal production can be restored to pre-war levels—but livestock will require more than four years—and meat production will only be 90 per cent of pre-war. The supply of fish is already at the pre-war level and can be raised. The following table summarises food output. According to these figures, France and Italy must have restored their cereal production by 1951.

PRODUCTION OF BASIC FOODS
(Million Metric Tons)

Year*	1934–8	1946–7	1947–8	1950–1
All cereals	64·5	55·6	48·9	65·8
Bread grains	34·0	28·3	21·4	34·0
Potatoes	57·7	50·7	61·6	68·2
Sugar	3·4	3·3	3·4	3·9
Meat	9·0	5·9	6·0	8·1
Milk	72·5	55·7	57·0	73·4
Oil and fats	2·8	2·0	2·2	2·9

*Years run from July 1 to June 30.

The export surpluses of the participating countries will form an automatic and increasing type of mutual aid. The estimated increases in export surpluses are:

(In Tons)

	1946–7	1950–1
Butter	87,000	154,000
Eggs	52,000	223,000
Meat	398,000	630,000
Fruit	550,000	1,991,000

Soil fertility must be restored and fertilisers are essential. Their production is already above the pre-war level and present production will be doubled by 1951. With adequate supplies of phosphates and potash, this amount will cover the requirements.

Special long term projects such as the production of ground nuts in Africa will help to increase fat supplies.

Fuel and power must be increased. The United States to-day consumes 4½ times as much per head as Western Europe. Even before the war the ratio was 2½:1. Before the war, four-fifths of the power was drawn from coal. The substitution of petroleum products and hydro-electric power is planned.

Coal production is summarised in the following table:

PRODUCTION OF COAL AND LIGNITE
(Million tons) (Ton for Ton)

	1938	1947	1948	1951
United Kingdom	231	199	214	249
Western Germany:—				
Bi-Zone	206	133	149	193
Saar	14	10	14	17
France	48	51	51	63
Belgium	30	24	26	31
Other Countries	23	22	24	31
Total	552	439	478	584

The increase in British production will be achieved by increasing manpower, modernising machinery, and introducing capital developments, among them twenty new sinkings.

The supplies of mining machinery amounting to over $1 billion will be almost entirely produced in the United Kingdom.

Britain hopes to begin exports in April, 1948, with a figure of 6,000,000 tons for 1948 rising to 29,000,000 in 1951.

The output in Western Germany in 1951 will still be less than in 1938 owing to the scale of destruction.

Mining supplies were examined and it is hoped that Sweden will raise its export of pitprops to 300,000 solid cubic metres a year (50 per cent above pre-war).

Consumption of electricity in 1948 may be 80 per cent above 1938. The annual increase in generating capacity must be four times that of 1937–8.

A special working party is examining a completely international and co-operative power plan which includes six hydro-electric plants in Italy, France and on the Austro-Italo-Swiss frontier together with two lignite thermal plants in Germany and one geo-thermal plant in Italy.

To meet the disturbance in normal supplies of coking coal from the Ruhr and Britain, the Committee has evolved an emergency scheme of coke economy to cover the deficit originally estimated at 20 per cent in 1948. If this plan is successful, the following steel figures should be reached:

PRODUCTION OF CRUDE STEEL
(Million tons)

	1938	Best pre-war Year	1947	1948	1951
United Kingdom	10·6	13·2	12·7	14·0	15·0
France	6·2	9·7	5·8	10·4	12·7
Belgium & Luxembourg	3·8	7·0	4·6	7·3	7·9
Italy..................	2·3	2·3	1·6	2·5	3·0
Other participating countries	1·8	1·8	2·0	2·3	4·1
Bi-Zone of Germany	17·8	17·8	2·8	4·1	(*b*) 10·0
Saar and French Zone ..	3·0	3·0	0·8	1·7	2·7
	45·5	54·7	30·3	42·3	55·4

(*b*) This figure does not prejudice any decision which may be taken later by the Council of Foreign Ministers.

Modernisation and re-equipment of the steel industry will be more important than new plant. Only 20 per cent of the 1951 output will come from new capacity. To secure the best results from their modernisation and development schemes for the steel industry the nations have agreed to an exchange of information.

Steel increases will make possible extensions in engineering. Western Europe can provide over 90 per cent of its need for mining equipment (estimated at $3,700 million) and also for generating plant ($5,300 million). It will produce two-thirds of the equipment

for the petroleum industry. Apart from such items as continuous wide strip mills, it will provide most of the equipment for the steel industries. It can cover its long-term needs in agriculture. Enough locomotives can be produced to provide small exports, but freight cars will remain short. Economies are being examined in the form of an international freight car pool and it is proposed to standardise the design. The war loss of 22,000,000 gross tons of shipping will be largely made good in the European shipyards.

Participating countries are to raise the production of timber by 10 per cent and the present high rate of cutting will be maintained in Western Germany.

Every nation has a labour shortage except Italy with a surplus of 2,000,000. Recruitment may later be possible in Western Germany. The Italian surplus, suitably trained, could meet all the participating nations' needs.

CHAPTER IV

INTERNAL FINANCIAL AND MONETARY STABILITY

The report analyses the forces making for inflation in Western Europe of which the chief two are inadequate food production and budgetary deficits. Lack of faith in the currency encourages hoarding—of food, goods and capital—which in turn increases the gap between expenditure and real income.

External aid alone will permit sufficient distribution of consumer goods to break the spiral. Thus the provision of dollars will not only finance the trading deficit, it is the essential first step in internal stabilisation. By 1951, it is the aim that national expenditure and national income shall balance.

Various governments, in particular France and Italy, have undertaken to take the necessary measures to balance their budgets and to balance expenditure against revenue. All the governments are pledged to achieve internal stability. But the painful process of checking inflation would be greatly assisted by the injection of external resources to raise each country's reserves of gold and dollars. A general estimate of the sum needed is in the neighbourhood of $3,000 million.

CHAPTER V

ECONOMIC CO-OPERATION

THE REPORT analyses the normal measures of self-help traditionally practised in Western Europe by means of trade.

The Governments pledge themselves:

(i) to abolish as soon as possible the abnormal restrictions at present hampering their mutual trade;

(ii) to aim at a sound and balanced multilateral trading system. Both steps depend largely on Europe's ability to sell to the American continent.

The nations will pursue the multilateral reduction of tariffs and a Customs Union, to "be achieved by progressive stages over a period of years," is under consideration. A study group has been established for this purpose.

The French Government has declared its readiness to negotiate customs unions with nations "capable of being combined with the French economy in such a way as to make a stable unit". The Italian Government has associated itself with this declaration. Greece and Turkey have also undertaken to consider a regional customs union between their two "friendly and neighbouring countries".

The principal achievements of mutual co-operation are:

(i) Co-operative plans to expand electric power without regard to national frontiers.
(ii) Standardisation of types of equipment such as mining machinery and freight cars.
(iii) An international freight car pool.
(iv) Exchange of information on national steel programmes.

Where suitable international machinery for economic co-operation exists, the participating nations intend to use it. The technical committees have suggested the submission of some production problems to the Economic Commission for Europe.

The Committee may be reconvened after consultation. The Chairman, the Rapporteur General and various delegates will hold themselves in readiness to provide the United States Government with information on the Report.

CHAPTER VI

THE IMPORT REQUIREMENTS

In estimating the scale of imports necessary to implement the Plan, the Technical Committees have attempted to estimate the supplies available and have valued them at the prices ruling on July 1, 1947. The following table gives the general result.

$'000 MILLION AT JULY 1, 1947, PRICES

	From U.S.A.	From rest of American Continent	Total from American Continent	From other non-participating countries	Total
1948	6·0	3·2	9·2	4·7	13·9
1949	5·3	3·9	9·1	5·4	14·5
1950	4·8	3·8	8·6	5·9	14·5
1951	4·3	3·9	8·2	6·2	14·4

The volume of imports is much the same as in a normal pre-war year, but whereas 40 per cent normally came from the American continent, the complete disruption of non-American sources of supply, particularly in Eastern Europe and South East Asia, has now raised the proportion to two-thirds.

The report assumes (i) "a substantial and steady resumption of East European food and timber supplies." The flow of cereals will be at the pre-war level in 1951 and timber will be 75 per cent of pre-war; (ii) a steady recovery in Asiatic supplies.

IMPORT PROGRAMME FROM THE AMERICAN CONTINENT
($'000 Million at Prices of July 1, 1947)

	1948		1951		Total 1948–51		
	U.S.A.	Rest of Am'ica	U.S.A.	Rest of Am'ica	U.S.A.	Rest of Am'ica	Total
Food and Fertilizers..	1·5	1·8	1·2	2·2	5·4	8·3	13·7
Coal	·3	..	·05	..	·7	..	·7
Petroleum Products[1]	·5	..	·55	..	2·2	..	2·2
Iron and Steel.......	·4	..	·3	..	1·2	·1	1·3
Timber............	·1	·2	·1	·1	·4	·6	1·0
Equipment covered by Tech. Committees...	1·1	..	·6	..	3·3	·1	3·4
Other Imports.......	2·1	1·2	1·5	1·6	7·2	5·7	12·9
Total Imports	6·0	3·2	4·3	3·9	20·4	14·8	35·2
Shipping Services	·6	..	·3	..	1·7	..	1·7

[1] Amounts required from dollar sources.

Many of these imports, notably of ships, coal, nitrogen and certain capital goods are essentially temporary. For example, the coal estimates.

(Million tons)

	1948	1951
From U.S.A.	42	7
From Poland[1]	16	30

There will be a similar decline in imports of capital equipment.

IMPORTS OF EQUIPMENT FROM THE AMERICAN CONTINENT[2]
(Millions of U.S. Dollars at Prices of July 1, 1947)

	1948	1949	1950	1951	Total 1948–51
A. *Equipment to create new capacity or restore or replace damaged capacity*					
(i) *Goods covered by Technical Committees*					
Electrical equipment	150	175	125	50	500
Petroleum equipment	50	51	52	49	202
Steel plants	100	100	100	100	400
Total	300	326	277	199	1,102
(ii) *Goods not covered by Technical Committees*	287	287	287	287	1,148
B. *Other Equipment*					
(i) *Goods covered by Technical Committees* .... (Other than agricultural and mining machinery)					
Petroleum equipment......	118	96	64	75	353
Inland Transport equipment	203	177	81	29	490
Timber equipment	10	9	7	6	32
Total	918	895	716	596	3,125
Agricultural machinery	370	313	268	237	1,188
Mining machinery	80	54	46	40	220
(ii) *Goods not covered by Technical Committees*	n.a.	n.a	n.a.	n.a.	n.a.
TOTAL EQUIPMENT	1,368	1,262	1,030	873	4,533

[1] Polish figure supplied to the European Coal Organisation.
[2] This table appears in Chapter VII, but for the sake of logic is included at this point.

There will be a permanent increase in imports of petroleum. The rise (from 49,000,000 tons in 1947 to 78,000,000 tons in 1951 assumes no petrol rationing. Consumption in 1951 per head of population will be 15 per cent of consumption in the United States.

"Other imports" are mainly raw materials normally needed in Europe's economy, such as cotton and non-ferrous metals.

Food imports are based on estimated availability rather than need.

IMPORT REQUIREMENTS OF FOOD AND FEEDING STUFFS

	1934–8	1946–7	1947–8	1950–1
Bread grains	14·0	15·3	23·7	17·9
Coarse grains	11·4	4·7	8·6	11·7
Sugar	2·7	1·7	1·7	2·3
Meat	1·7	1·6	2·1	2·5
Fats (oil equivalent)	2·6	1·1	1·7	2·3
Oilcake[1]	5·0	1·9	3·5	5·4

This programme should give the following consumption per head of population.

(Kg. per Head per Year)

	1934–8	1947–8	1950–1
Bread grains	192·0	159·0	179·0
Potatoes	236·0	228·0	245·0
Sugar	27·4	20·0	25·2
Meat	42·9	30·0	37·6
Fats (oil equivalent)	24·1	17·0	22·6

Definite estimates of the provenance and distribution of the cereals is difficult to make. The belief is that twenty of the annual figure of about 25,000,000 will come from the American continent, with 8,000,000 to 9,000,000 tons from the United States.

CHAPTER VII

THE PROBLEM OF PAYMENTS

The account of the problem of payments "is built primarily from the experts' view of the prospective commodity supply to the participating countries as a whole, rather than from independent and unco-ordinated financial estimates from the individual countries". The analysis deals with trade with the American continent rather than with the United States, since dollars are generally necessary.

[1] Including the oilcake contents of imported oilseeds.

Balance of Payments of Participating Countries and Western Germany in 1948
($'000 Million)

	American Continent	Other Non-participating Countries
Imports	— 9·17	— 4·70
Exports	+ 2·16	+ 4·30
Net Surplus (+) or Deficit (—) on invisible account	— 0·57	+ 0·38
Dependent Territories, net surplus (+) or deficit (—)	— 0·45	+ 0·22
	— 8·03	— 0·24

The adverse balance with the American continent is not abnormal. In 1938 it was $1,750 million dollars. What is abnormal is the loss of other assets, overseas investments, colonial sales to America and dollar earning trade with the rest of the world which used to provide the multilateral balance.

Assuming favourable external conditions and a steady fall in the price of imports from America, the following deficits are expected:

($'000 Million)

	1948	1949	1950	1951	Total
U.S.A.	5·64	4·27	3·28	2·62	15·81
Rest of American Continent.	1·94	1·82	1·30	0·91	5·97
	7·58	6·09	4·58	3·53	21·78
Deficit of Dependent Territories	0·46	0·26	0·07	0·13	0·66
Total	8·04	6·35	4·65	3·40	22·44
Less Possible Capital from the World Bank	0·92	0·89	0·72	0·60	3·13
Total	7·12	5·46	3·93	2·80	19·31

The decline in dollar requirements is due to four factors:

(i) a fall in the need of American imports of certain types.

(ii) increased production in Europe.

(iii) more supplies available in the rest of the world.

(iv) an export drive to the United States. The proposed export drive to the American continent is planned on the following scale:

('000 Million)

	U.S.A.	Rest of American Continent
1948	0·85	1·31
1949	1·11	1·72
1950	1·23	2·14
1951	1·48	2·46

By 1951, Western Europe hopes to have a favourable balance with other non-participating countries of $1,800 million.

These plans depend upon the American continent buying from Europe or permitting other countries to earn dollars in America.

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